UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2021

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 001-39329

Royalty Pharma plc

(Exact name of registrant as specified in its charter)

England and Wales	**98-1535773**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

110 East 59th Street
New York, New York 10022

(Address of principal executive offices and zip code)

(212) 883-0200
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Class A ordinary shares, par value $0.0001	RPRX	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of November 8, 2021, Royalty Pharma plc had 429,511,014 Class A ordinary shares outstanding and 177,663,223 Class B ordinary shares outstanding.

ROYALTY PHARMA PLC

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Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains statements reflecting our views about our future performance that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, you can identify these statements by forward-looking words such as "may," "might," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue," the negative of these terms and other comparable terminology. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about us, our current and prospective assets, our industry, our beliefs and our assumptions. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. You should evaluate all forward-looking statements made in this Quarterly Report on Form 10-Q in the context of the numerous risks outlined in Part I under Item 1A. under "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

These risks and uncertainties include factors related to:

- sales risks of biopharmaceutical products on which we receive royalties;
- the ability of RP Management, LLC (the "Manager") to locate suitable assets for us to acquire;
- uncertainties related to the acquisition of interests in development-stage biopharmaceutical product candidates and our strategy to add development-stage product candidates to our product portfolio;
- the assumptions underlying our business model;
- our ability to successfully execute our royalty acquisition strategy;
- our ability to leverage our competitive strengths;
- actual and potential conflicts of interest with the Manager and its affiliates;
- the ability of the Manager or its affiliates to attract and retain highly talented professionals;
- the effect of changes to tax legislation and our tax position; and
- the risks, uncertainties and other factors we identify elsewhere in this Quarterly Report on Form 10-Q and in our other filings with the U.S. Securities and Exchange Commission.

Although we believe the expectations reflected in the forward-looking statements are reasonable, any of those expectations could prove to be inaccurate, and as a result, the forward-looking statements based on those expectations also could be inaccurate. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this Quarterly Report on Form 10-Q should not be regarded as a representation by us that our plans and business objectives will be achieved. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. We are under no duty to update any of these forward-looking statements after the date of this Quarterly Report on Form 10-Q to conform our prior statements to actual results or revised expectations.

PART 1. FINANCIAL INFORMATION
Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ROYALTY PHARMA PLC
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)
(Unaudited)

	As of September 30, 2021	As of December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	$ 1,800,808	$ 1,008,680
Marketable securities	245,745	983,279
Financial royalty assets	579,746	587,193
Accrued royalty receivable	59,657	33,155
Available for sale debt securities	67,016	69,984
Other royalty income receivable	13,844	6,011
Other current assets	8,945	8,596
Total current assets	**2,775,761**	**2,696,898**
Financial royalty assets, net	14,014,116	12,368,084
Intangible royalty assets, net	11,466	28,666
Equity securities	264,765	298,689
Available for sale debt securities	188,684	163,016
Investments in non-consolidated affiliates	473,051	454,936
Other assets	4,515	9,997
Total assets	**$ 17,732,358**	**$ 16,020,286**
Liabilities and equity		
Current liabilities		
Distribution payable to non-controlling interest	$ 119,135	$ 126,366
Accounts payable and accrued expenses	9,187	10,775
Interest payable	16,733	42,146
Accrued purchase obligation	110,000	110,000
Other current liabilities	—	18,600
Total current liabilities	**255,055**	**307,887**
Long-term debt	7,090,669	5,816,584
Total liabilities	**7,345,724**	**6,124,471**
Commitments and contingencies		
Shareholders' equity		
Class A ordinary shares, $0.0001 par value; 429,511 and 388,135 issued and outstanding, respectively	43	39
Class B ordinary shares, $0.000001 par value; 177,663 and 218,976 issued and outstanding, respectively	—	—
Class R redeemable shares, £1 par value; 50 and 50 issued and outstanding, respectively	63	63
Deferred shares, $0.000001 par value, 357,720 and 316,407 issued and outstanding, respectively	—	—
Additional paid-in capital	3,454,218	2,865,964
Retained earnings	2,320,878	1,920,635
Non-controlling interest	4,593,564	5,077,036
Accumulated other comprehensive income	20,553	34,395
Treasury interests	(2,685)	(2,317)
Total shareholders' equity	**10,386,634**	**9,895,815**
Total liabilities and shareholders' equity	**$ 17,732,358**	**$ 16,020,286**

See accompanying notes to these unaudited condensed consolidated financial statements.

ROYALTY PHARMA PLC

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Total income and revenues				
Income from financial royalty assets	$ 505,832	$ 498,515	$ 1,538,871	$ 1,435,536
Revenue from intangible royalty assets	63,406	34,550	139,594	102,978
Other royalty income	16,535	5,334	35,298	11,696
Total income and other revenues	**585,773**	**538,399**	**1,713,763**	**1,550,210**
Operating expenses				
Provision for changes in expected cash flows from financial royalty assets	137,837	(33,792)	186,337	101,498
Research and development funding expense	90,500	5,096	96,263	18,510
Amortization of intangible assets	5,796	5,796	17,200	17,262
General and administrative expenses	48,588	50,732	136,665	131,596
Total operating expenses, net	**282,721**	**27,832**	**436,465**	**268,866**
Operating income	**303,052**	**510,567**	**1,277,298**	**1,281,344**
Other (income)/expense				
Equity in earnings of non-consolidated affiliates	(2,749)	(13,743)	(18,532)	(33,961)
Interest expense	44,327	31,444	119,168	119,217
Losses on derivative financial instruments	16,972	7,088	21,436	39,886
Losses/(gains) on equity securities	19,289	(160,226)	17,980	(200,955)
Unrealized losses/(gains) on available for sale debt securities	14,885	—	(8,246)	—
Interest income	(12,261)	(1,587)	(42,896)	(7,169)
Other non-operating expense, net	793	23,337	858	29,000
Total other expense/(income), net	**81,256**	**(113,687)**	**89,768**	**(53,982)**
Consolidated net income before tax	221,796	624,254	1,187,530	1,335,326
Income tax expense	—	—	—	—
Consolidated net income	221,796	624,254	1,187,530	1,335,326
Net income attributable to non-controlling interest	119,867	333,622	575,706	531,380
Net income attributable to controlling interest	**101,929**	**290,632**	**611,824**	**803,946**
Other comprehensive income/(loss)				
Reclassification of loss on interest rate swaps	—	—	—	4,066
Unrealized (losses)/gains on available for sale debt securities	(2,575)	7,571	8,574	67,245
Reclassification of unrealized gains on available for sale debt securities	(11,756)	—	(40,545)	—
Other comprehensive (loss)/income	(14,331)	7,571	(31,971)	71,311
Other comprehensive (loss)/income attributable to non-controlling interest	(6,000)	3,768	(14,112)	15,064
Other comprehensive (loss)/income attributable to controlling interest	(8,331)	3,803	(17,859)	56,247
Comprehensive income attributable to controlling interest	**$ 93,598**	**$ 294,435**	**$ 593,965**	**$ 860,193**
Earnings per Class A ordinary share (1):				
Basic	$ 0.24	$ 0.79	$ 1.49	$ 0.88
Diluted	$ 0.24	$ 0.79	$ 1.49	$ 0.88
Weighted average Class A ordinary shares outstanding (1):				
Basic	428,230	369,999	409,253	367,753
Diluted	607,174	370,002	607,152	367,756

(1) Prior year nine month figures represent earnings per Class A ordinary share and weighted average Class A ordinary shares outstanding for the period from June 16, 2020 through September 30, 2020, the period following our initial public offering ("IPO"). See Note 13–Earnings per Share.

See accompanying notes to these unaudited condensed consolidated financial statements.

ROYALTY PHARMA PLC

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Class A Ordinary Shares		Class B Ordinary Shares		Class R Redeemable Shares		Deferred Shares		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Non-Controlling Interest	Treasury Interests	Total Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount						
Balance at June 30, 2021	427,006	$ 42	180,166	$ —	50	$ 63	355,217	$ —	$ 3,415,598	$ 2,291,966	$ 28,672	$ 4,671,686	$ (2,662)	$ 10,405,365
Contributions	—	—	—	—	—	—	—	—	—	—	—	6,030	—	6,030
Distributions	—	—	—	—	—	—	—	—	—	—	—	(159,714)	—	(159,714)
Dividends ($0.17 per Class A ordinary share)	—	—	—	—	—	—	—	—	—	(73,017)	—	—	—	(73,017)
Other exchanges	2,503	1	(2,503)	—	—	—	2,503	—	38,115	—	212	(38,305)	(23)	—
Share based compensation and related issuances of Class A ordinary shares	2	—	—	—	—	—	—	—	505	—	—	—	—	505
Net income	—	—	—	—	—	—	—	—	—	101,929	—	119,867	—	221,796
Other comprehensive income/(loss):														
Unrealized losses on available for sale debt securities	—	—	—	—	—	—	—	—	—	—	(1,497)	(1,078)	—	(2,575)
Reclassification of unrealized gains on available for sale debt securities	—	—	—	—	—	—	—	—	—	—	(6,834)	(4,922)	—	(11,756)
Balance at September 30, 2021	**429,511**	**$ 43**	**177,663**	**$ —**	**50**	**$ 63**	**357,720**	**$ —**	**$ 3,454,218**	**$ 2,320,878**	**$ 20,553**	**$ 4,593,564**	**$ (2,685)**	**$ 10,386,634**

	Class A Ordinary Shares		Class B Ordinary Shares		Class R Redeemable Shares		Deferred Shares		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Non-Controlling Interest	Treasury Interests	Total Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount						
Balance at June 30, 2020	365,899	$ 37	241,207	$ —	50	$ 63	294,176	$ —	$ 2,557,237	$ 1,571,399	$ 30,515	$ 5,237,829	$ (2,119)	$ 9,394,961
Contributions	—	—	—	—	—	—	—	—	—	—	—	2,105	—	2,105
Distributions	—	—	—	—	—	—	—	—	—	—	—	(175,348)	—	(175,348)
Dividends ($0.15 per Class A ordinary share)	—	—	—	—	—	—	—	—	—	(54,885)	—	—	—	(54,885)
Other exchanges	4,099	—	(4,099)	—	—	—	4,099	—	54,414	—	428	(54,806)	(36)	—
Share-based compensation and related issuances of Class A ordinary shares	4	—	—	—	—	—	—	—	848	—	—	—	—	848
IPO offering costs	—	—	—	—	—	—	—	—	(523)	—	—	(335)	—	(858)
Net income	—	—	—	—	—	—	—	—	—	290,632	—	333,622	—	624,254
Other comprehensive income:														
Unrealized gains on available for sale debt securities	—	—	—	—	—	—	—	—	—	—	3,803	3,768	—	7,571
Balance at September 30, 2020	**370,002**	**$ 37**	**237,108**	**$ —**	**50**	**$ 63**	**298,275**	**$ —**	**$ 2,611,976**	**$ 1,807,146**	**$ 34,746**	**$ 5,346,835**	**$ (2,155)**	**$ 9,798,648**

See accompanying notes to these unaudited condensed consolidated financial statements.

ROYALTY PHARMA PLC

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Class A Ordinary Shares		Class B Ordinary Shares		Class R Redeemable Shares		Deferred Shares		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Non-Controlling Interest	Treasury Interests	Total Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount						
Balance at December 31, 2020	388,135	$ 39	218,976	$ —	50	$ 63	316,407	$ —	$ 2,865,964	$ 1,920,635	$ 34,395	$ 5,077,036	$ (2,317)	$ 9,895,815
Contributions	—	—	—	—	—	—	—	—	—	—	—	20,803	—	20,803
Distributions	—	—	—	—	—	—	—	—	—	—	—	(475,901)	—	(475,901)
Dividends ($0.51 per Class A ordinary share)	—	—	—	—	—	—	—	—	—	(211,581)	—	—	—	(211,581)
Other exchanges	41,313	4	(41,313)	—	—	—	41,313	—	586,315	—	4,017	(589,968)	(368)	—
Share based compensation and related issuances of Class A ordinary shares	63	—	—	—	—	—	—	—	1,939	—	—	—	—	1,939
Net income	—	—	—	—	—	—	—	—	—	611,824	—	575,706	—	1,187,530
Other comprehensive income/(loss):														
Unrealized gains on available for sale debt securities	—	—	—	—	—	—	—	—	—	—	4,562	4,012	—	8,574
Reclassification of unrealized gains on available for sale debt securities	—	—	—	—	—	—	—	—	—	—	(22,421)	(18,124)	—	(40,545)
Balance at September 30, 2021	**429,511**	**$ 43**	**177,663**	**$ —**	**50**	**$ 63**	**357,720**	**$ —**	**$ 3,454,218**	**$ 2,320,878**	**$ 20,553**	**$ 4,593,564**	**$ (2,685)**	**$ 10,386,634**

See accompanying notes to these unaudited condensed consolidated financial statements.

ROYALTY PHARMA PLC

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Class A Ordinary Shares		Class B Ordinary Shares		Class R Redeemable Shares		Deferred Shares		Additional Paid-In Capital	Shareholders' Contributions	Retained Earnings	Accumulated Other Comprehensive Income	Non-Controlling Interest	Treasury Interests	Total Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount							
Balance at December 31, 2019	—	$ —	—	$ —	—	$ —	—	$ —	$ —	$ 3,282,516	$ 2,825,212	$ 2,093	$ 35,883	$ (4,266)	$ 6,141,438
Contributions	—	—	—	—	—	—	—	—	—	307,646	—	—	1,142,424	—	1,450,070
Transfer of interests	—	—	—	—	—	—	—	—	—	(1,037,161)	—	—	1,037,161	—	—
Cumulative adjustment for adoption of ASU 2016-13	—	—	—	—	—	—	—	—	—	—	(192,705)	—	—	—	(192,705)
Distributions	—	—	—	—	—	—	—	—	—	—	(313,408)	—	(551,624)	—	(865,032)
Initial share issuance upon registration of Royalty Pharma plc	—	—	—	—	50	63	—	—	—	—	—	—	—	—	63
Net income prior to IPO	—	—	—	—	—	—	—	—	—	—	479,842	—	145,043	—	624,885
Issuance of Class B ordinary shares to Continuing Investors Partnerships	—	—	535,383	1	—	—	—	—	—	—	—	—	—	—	1
Effect of exchange by Continuing Investors of Class B ordinary shares for Class A ordinary shares and reallocation of historical equity	294,176	30	(294,176)	(1)	—	—	294,176	—	1,402,762	(2,553,001)	(1,261,014)	(24,022)	2,433,098	2,147	(1)
Issuance of Class A ordinary shares sold in IPO, net of offering costs	71,652	7	—	—	—	—	—	—	1,150,212	—	—	—	758,255	—	1,908,474
Share-based compensation and related issuances of Class A ordinary shares	75	—	—	—	—	—	—	—	4,588	—	—	—	—	—	4,588
Other exchanges	4,099	—	(4,099)	—	—	—	4,099	—	54,414	—	—	428	(54,806)	(36)	—
Dividends ($0.15 per Class A ordinary share)	—	—	—	—	—	—	—	—	—	—	(54,885)	—	—	—	(54,885)
Net income subsequent to IPO	—	—	—	—	—	—	—	—	—	—	324,104	—	386,337	—	710,441
Other comprehensive income:															
Unrealized gains on available for sale debt securities	—	—	—	—	—	—	—	—	—	—	—	52,181	15,064	—	67,245
Reclassification of loss on interest rate swaps	—	—	—	—	—	—	—	—	—	—	—	4,066	—	—	4,066
Balance at September 30, 2020	**370,002**	**$ 37**	**237,108**	**$ —**	**50**	**$ 63**	**298,275**	**$ —**	**$ 2,611,976**	**$ —**	**$ 1,807,146**	**$ 34,746**	**$ 5,346,835**	**$ (2,155)**	**$ 9,798,648**

See accompanying notes to these unaudited condensed consolidated financial statements.

ROYALTY PHARMA PLC

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	For the Nine Months Ended September 30,	
	2021	**2020**
Cash flows from operating activities:		
Cash collections from financial royalty assets	$ 1,733,147	$ 1,549,211
Cash collections from intangible royalty assets	113,133	104,131
Other royalty cash collections	27,469	12,614
Distributions from non-consolidated affiliates	28,213	36,041
Interest received	3,004	7,476
Derivative collateral received	34,660	45,252
Derivative collateral posted	(34,660)	—
Termination payments on derivative instruments	(16,093)	(35,448)
Ongoing development-stage funding payments	(6,263)	(18,510)
Upfront development-stage funding payments	(90,000)	—
Payments for operating and professional costs	(135,272)	(129,382)
Interest paid	(129,759)	(102,429)
Net cash provided by operating activities	**1,527,579**	**1,468,956**
Cash flows from investing activities:		
Distributions from non-consolidated affiliates	523	15,084
Investments in non-consolidated affiliates	(28,320)	(29,262)
Purchases of equity securities	(100,013)	(50,000)
Proceeds from equity securities	115,957	—
Purchases of available for sale debt securities	(52,755)	—
Proceeds from available for sale debt securities	46,875	—
Purchases of marketable securities	(755,668)	(1,095,259)
Proceeds from sales and maturities of marketable securities	1,493,135	609,604
Acquisitions of financial royalty assets	(2,019,768)	(1,377,085)
Milestone payments	(18,600)	—
Net cash used in investing activities	**(1,318,634)**	**(1,926,918)**
Cash flows from financing activities:		
Distributions to shareholders/unitholders	—	(285,353)
Distributions to non-controlling interest	(363,624)	(400,893)
Distributions to non-controlling interest- other	(119,507)	(74,231)
Dividends to shareholders	(211,581)	(54,885)
Contributions from non-controlling interest- R&D	6,083	6,221
Contributions from non-controlling interest- other	11,524	29,985
Scheduled repayments of long-term debt	—	(94,200)
Repayments of long-term debt	—	(11,116,196)
Proceeds from issuance of long-term debt	1,272,533	11,891,030
Debt issuance costs and other	(12,245)	(46,564)
Proceeds from issuance of Class A ordinary shares upon IPO, net of offering costs	—	1,909,651
Net cash provided by financing activities	**583,183**	**1,764,565**
Net change in cash and cash equivalents	792,128	1,306,603
Cash and cash equivalents, beginning of period	1,008,680	246,199
Cash and cash equivalents, end of period	**$ 1,800,808**	**$ 1,552,802**

See accompanying notes to these unaudited condensed consolidated financial statements.

1. Organization and Purpose

Royalty Pharma plc is an English public limited company incorporated under the laws of England and Wales that was created for the purpose of consolidating our predecessor entities and facilitating the IPO of our Class A ordinary shares that was completed in June 2020.

Following our IPO, we control Royalty Pharma Holdings Ltd. ("RP Holdings"), a private limited company incorporated under the laws of England and Wales and U.K. tax resident through our ownership of RP Holdings' Class A ordinary shares (the "RP Holdings Class A Interests") and RP Holdings' Class B ordinary shares (the "RP Holdings Class B Interests"). We conduct our business through RP Holdings and its subsidiaries and include RP Holdings and its subsidiaries in our condensed consolidated financial statements.

RP Holdings is the sole owner of Royalty Pharma Investments 2019 ICAV ("RPI 2019 ICAV"), which is an Irish collective asset management entity formed to facilitate our Exchange Offer Transactions (defined below), and is the successor to Royalty Pharma Investments, an Irish unit trust ("Old RPI"), for accounting and financial reporting purposes. RP Holdings is owned by RPI US Partners 2019, LP, a Delaware limited partnership, RPI International Holdings 2019, LP, a Cayman Islands exempted limited partnership (together, the "Continuing Investors Partnerships"), and Royalty Pharma plc. Old RPI is a unit trust established in August 2011 under the laws of Ireland and authorized by the Central Bank of Ireland pursuant to the Unit Trusts Act, 1990. Prior to the Exchange Offer Transactions, Old RPI was owned by various partnerships (the "Legacy Investors Partnerships").

RP Management, LLC (the "Manager"), a Delaware limited liability company, is an external adviser which is responsible for our management. RP Management (Ireland) Ltd. ("RP Ireland"), is the manager of Old RPI and equivalent to the board of directors of a company or general partner of a partnership and is responsible for the day to day operations of Old RPI. Its functions can be delegated to third parties. RP Ireland delegated responsibility for investment management of Old RPI to its parent company, the Manager, in accordance with the investment objectives and policies of Old RPI.

"Royalty Pharma," the "Company," "we," "us" and "our" refer to Royalty Pharma plc and its subsidiaries on a consolidated basis. After the consummation of the Reorganization Transactions (defined below) and before the consummation of the IPO, "Royalty Pharma," the "Company," "we," "us" and "our" refer to RPI 2019 ICAV. Prior to the Reorganization Transactions, "Royalty Pharma," the "Company," "we," "us" and "our" refer to Old RPI.

We are the largest buyer of biopharmaceutical royalties and a leading funder of innovation across the biopharmaceutical industry. We fund innovation in the biopharmaceutical industry both directly and indirectly—directly when we partner with companies to co-fund late-stage clinical trials and new product launches in exchange for future royalties, and indirectly when we acquire existing royalties from the original innovators.

Reorganization Transactions

In connection with our IPO, we consummated an exchange offer on February 11, 2020 (the "Exchange Date"). Through the exchange offer, investors representing 82% of the aggregate limited partnership in the Legacy Investors Partnerships, exchanged their limited partnership interests in the Legacy Investors Partnerships for limited partnership interests in the Continuing Investors Partnerships. The exchange offer transaction together with (i) the concurrent incurrence of indebtedness under our new credit facility and (ii) the issuance of additional interests in Continuing Investors Partnerships to satisfy performance payments payable in respect of assets acquired prior to the date of the IPO are referred to as the "Exchange Offer Transactions."

As a result of the Exchange Offer Transactions, we own, through our subsidiary RPI 2019 Intermediate Finance Trust, a Delaware statutory trust ("RPI Intermediate FT"), an 82% economic interest in Old RPI. Through our 82% indirect ownership of Old RPI, we are legally entitled to 82% of the economics of Old RPI's wholly-owned subsidiaries, RPI Finance Trust, a Delaware statutory trust ("RPIFT") and RPI Acquisitions (Ireland), Limited ("RPI Acquisitions"), an Irish private limited company, and 66% of Royalty Pharma Collection Trust, a Delaware statutory trust ("RPCT"). The remaining 34% of RPCT is owned by the Legacy Investors Partnerships and Royalty Pharma Select Finance Trust, a Delaware statutory trust ("RPSFT"), which is wholly owned by Royalty Pharma Select, an Irish unit trust. From the Exchange Date until the expiration of the Legacy Investors Partnerships' investment period on June 30, 2020 (the "Legacy Date"), the Legacy Investors Partnerships were offered to participate proportionately in any investment made by Old RPI. Following the Legacy Date, Old RPI ceased making new investments and each of Old RPI and the Legacy Investors Partnerships became legacy entities. Following the Legacy Date, we have made and plan to make new investments through our subsidiaries, including RPI Intermediate FT.

As part of the Exchange Offer Transactions, the Legacy Investors Partnerships and RPI Intermediate FT entered into new credit facilities in the amount of $1.3 billion and $6.0 billion, respectively, the proceeds of which were used to repay the $6.3 billion outstanding debt of RPIFT and, in the case of RPI Intermediate FT, were also available to be used to fund investments. As part of the new credit facilities, RPI Intermediate FT repaid $5.2 billion, its pro rata portion of RPIFT's outstanding debt and accrued interest. RPIFT also terminated all outstanding interest rate swaps in connection with the debt refinancing.

Prior to, and as a condition precedent to the closing of the IPO, various reorganization transactions became effective, including the following:

- the Exchange Offer Transactions (as described above); and
- the execution of a new management agreement with the Manager (the "Management Agreement").

We refer to these transactions collectively as the "Reorganization Transactions."

As Old RPI is our predecessor for financial reporting purposes, we have recorded Old RPI's assets and liabilities at the carrying value reflected on Old RPI's balance sheet as of the Exchange Date. The references in the following notes for the periods prior to the Exchange Date refer to the financial results of Old RPI for the same periods.

IPO

On June 18, 2020, we completed our IPO on the Nasdaq Global Select Market under the ticker symbol "RPRX", in which we issued 89,334 thousand Class A ordinary shares at a price to the public of $28.00 per Class A ordinary share, of which 71,652 thousand and 17,682 thousand shares were offered by the Company and selling shareholders, respectively. We used the net proceeds from the IPO to acquire RP Holdings Class A Interests and, as a result, we own 100% of RP Holdings Class A Interests.

Upon consummation of the IPO, certain of the Continuing Investors agreed to exchange, pursuant to the Exchange Offer Transactions, interests in the Continuing Investors Partnerships represented by their ownership of 294,176 thousand RP Holdings Class B Interests into an aggregate of 294,176 thousand Class A ordinary shares of Royalty Pharma plc. Upon completion of the exchange, Royalty Pharma plc indirectly owned 294,176 thousand RP Holdings Class B Interests. The remaining investors in the Continuing Investors Partnerships who did not elect to exchange into Class A ordinary shares held 241,207 thousand newly issued Class B ordinary shares of Royalty Pharma plc. As a result, the Continuing Investors Partnerships held a number of our Class B ordinary shares equal to the number of RP Holdings Class B Interests indirectly held by them at such time which are exchangeable on a one-for-one basis for Class A ordinary shares of Royalty Pharma plc.

2. Summary of Significant Accounting Policies

Basis of preparation and use of estimates

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

In the opinion of management, all adjustments considered necessary to present fairly the results of the interim periods have been included and consist only of normal and recurring adjustments. Certain information and footnote disclosures have been condensed or omitted as permitted under U.S. GAAP. As such, the information included in this Quarterly Report on Form 10-Q should be read in conjunction with the audited consolidated financial statements and the related notes thereto as of and for the year ended December 31, 2020, included in our Annual Report on Form 10-K.

The preparation of unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of income, revenues and expenses during the reporting period. Actual results may differ from those estimates. The results for the interim periods are not necessarily indicative of results for the full year.

The precise extent to which the COVID-19 pandemic will impact our operational and financial performance will depend on various factors. To date, the pandemic has not materially impacted our financial performance and we do not believe it is reasonably likely to in the future. Due to the nature of our business, the effect of the COVID-19 pandemic may not be fully reflected in certain of our results of operations until future periods.

Basis of consolidation

The unaudited condensed consolidated financial statements include the accounts of Royalty Pharma and all majority-owned and controlled subsidiaries, as well as variable interest entities, where we are the primary beneficiary. We consolidate based upon evaluation of our power, through voting rights or similar rights, to direct the activities of another entity that most significantly impact the entity's economic performance. For consolidated entities where we own or are exposed to less than 100% of the economics, we record *Net income attributable to non-controlling interest* in our unaudited condensed consolidated statements of comprehensive income equal to the percentage of the economic or ownership interest retained in such entities by the respective non-controlling parties.

Following management's determination that a high degree of common ownership existed in Royalty Pharma both before and after the Exchange Date, Royalty Pharma recognized Old RPI's assets and liabilities at the carrying value reflected on Old RPI's balance sheet as of the Exchange Date.

Prior to the Exchange Offer Transactions, our only historical non-controlling interest was attributable to a de minimis interest in RPCT held by RPSFT. As a result of the Exchange Offer Transactions in February 2020, a new non-controlling interest was created related to the Legacy Investors Partnerships' ownership of approximately 18% in Old RPI.

Following the consummation of our IPO in June 2020, two new non-controlling interests were created: (1) a non-controlling interest related to the Continuing Investors Partnerships' ownership in RP Holdings through their ownership of the RP Holdings Class B Interests, which amounted to approximately 29% as of September 30, 2021 and (2) a non-controlling interest related to RPI EPA Holdings, LP ("EPA Holdings"), an affiliate of the Manager through its ownership of the RP Holdings' Class C ordinary share (the "RP Holdings Class C Special Interest"). Income will not be allocated to the latter non-controlling interest until certain conditions are met, which we do not expect to occur for several years.

All intercompany transactions and balances have been eliminated in consolidation.

Reclassification

Certain prior period amounts have been reclassified to conform to the current period presentation.

Concentrations of credit risk

Financial instruments that subject us to significant concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities, financial royalty assets and receivables. Our cash management and investment policy limits investment instruments to investment-grade securities with the objective to preserve capital and to maintain liquidity until the funds are needed for operations. Our cash and cash equivalents and marketable securities balances as of September 30, 2021 and December 31, 2020 were held with State Street and Bank of America. Our primary operating accounts significantly exceed the Federal Deposit Insurance Corporation limits.

The majority of our financial royalty assets and receivables arise from contractual royalty agreements that entitle us to royalties on the sales of underlying biopharmaceutical products in the United States, Europe and the rest of the world, with concentrations of credit risk limited due to the broad range of marketers responsible for paying royalties to us and the variety of geographies from which our royalties on product sales are derived. The products in which we hold royalties are marketed by leading industry participants, including, among others, AbbVie, Bristol Myers Squibb, Gilead, Johnson & Johnson, Lilly, Merck, Pfizer, Novartis, Biogen, Roche and Vertex. As of September 30, 2021 and December 31, 2020, Vertex was the marketer and payor making up the largest balance of our current portion of *Financial royalty assets, net*, accounting for 32% and 27%, respectively, as the marketer and payor of our royalties on the cystic fibrosis franchise.

We monitor the financial performance and creditworthiness of the counterparties to our royalty agreements so that we can properly assess and respond to changes in their credit profile. To date, we have not experienced any significant losses with respect to the collection of income or revenue on our royalty assets.

Recently adopted and issued accounting standards

Upon the January 1, 2020 adoption of ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), we recorded a cumulative adjustment to *Retained earnings* of $192.7 million to recognize an allowance for current expected credit losses on the portion of our portfolio of financial royalty assets that is subject to credit risk. Refer to Note 7–Cumulative Allowance for Changes in Expected Cash Flows from Financial Royalty Assets for additional discussion.

Significant Accounting Policies

There have been no material changes to our significant accounting policies from our Annual Report on Form 10-K for the year ended December 31, 2020.

3. Available for Sale Debt Securities

Series A Biohaven Preferred Shares

On April 5, 2019, RPIFT funded the purchase of 2,495 Series A Biohaven Preferred Shares from Biohaven Pharmaceutical Holding Company Ltd. ("Biohaven") at a price of $50,100.00 per preferred share, for a total of $125.0 million (the "First Tranche"). The approval of Nurtec ODT by the U.S. Food and Drug Administration ("FDA") in February 2020 results in a payment due to us of two times the original purchase price of the Series A Biohaven Preferred Shares payable in equal quarterly installments beginning on March 31, 2021 through December 31, 2024. In the three months ended March 31, 2021, we began receiving payment from the quarterly redemption of the Series A Biohaven Preferred Shares. If Biohaven effects any change of control event, then we will have the option to cause Biohaven to redeem, in a single payment, any outstanding Series A Biohaven Preferred Shares at a price equal to two times the original purchase price of the Series A Biohaven Preferred Shares. Biohaven may redeem at their election, any outstanding Series A Biohaven Preferred Shares, in a single payment, at a price equal to two times the original purchase price. In the event that Biohaven defaults on any obligation to redeem Series A Biohaven Preferred Shares when required, the redemption amount shall accrue interest at the rate of 18% annually until the redemption price for such unredeemed Series A Biohaven Preferred Shares is paid in full, subject to applicable law. If any such default continues for at least one year, we will be entitled to convert all unredeemed Series A Biohaven Preferred Shares into common shares equal to the redemption price, plus accrued interest, divided by the five-day volume-weighted trading price immediately preceding the conversion date.

The Series A Biohaven Preferred Shares are classified as *Available for sale debt securities* in our condensed consolidated balance sheets. The unrealized change in the fair value of the Series A Biohaven Preferred Shares is recorded in other comprehensive income within *Unrealized (losses)/gains on available for sale debt securities* on the condensed consolidated statements of comprehensive income.

Series B Biohaven Preferred Shares

On August 7, 2020, we entered into a Series B Biohaven Preferred Share Purchase Agreement ("Series B Biohaven Preferred Share Agreement") with Biohaven where we committed to acquire 3,992 shares of Series B Biohaven Preferred Shares at a price of $50,100 per preferred share (the "Commercial Launch Preferred Equity"), for a total of $200 million payable on a quarterly basis between March 31, 2021 and December 31, 2024. Our commitment to purchase the Series B Biohaven Preferred Shares is recognized as the Series B Forwards. In return, Biohaven will be required to redeem the Series B Biohaven Preferred Shares in a series of equal fixed quarterly payments between March 31, 2025 and December 31, 2030 at a price equal to approximately 1.8 times the original purchase price of the Series B Biohaven Preferred Shares. If Biohaven effects any change of control event, then we will have the option to cause Biohaven to issue to us all unissued Series B Biohaven Preferred Shares and to redeem, in a single payment, any outstanding Series B Biohaven Preferred Shares at a price equal to approximately 1.8 times the Series B original issue price per share. Biohaven may redeem at their election, any outstanding Series B Biohaven Preferred Shares, in a single payment, at a price equal to approximately 1.8 times the Series B original issue price. In the event that Biohaven defaults on any obligation to redeem Series B Biohaven Preferred Shares, the redemption amount shall accrue interest on the applicable original issue price at the rate of 18% annually until the redemption price for such unredeemed Series B Biohaven Preferred Shares is paid in full, subject to applicable law. If any such default continues for at least one year, we will be entitled to convert any or all unredeemed Series B Biohaven Preferred Shares into common shares equal to the redemption price, plus accrued interest, divided by the five-day volume-weighted trading price immediately preceding the conversion date.

In the three months ended March 31, 2021, we began purchasing the Series B Biohaven Preferred Shares. As of September 30, 2021, we have acquired 1,053 shares of Series B Biohaven Preferred Shares. We have elected the fair value option to account for the Series B Forwards and the Series B Biohaven Preferred Shares, which are recorded in aggregate on the condensed consolidated balance sheets as *Available for sale debt securities*. We believe the fair value option most accurately reflects the nature of these instruments. The unrealized change in fair value of the Series B Biohaven Preferred Shares and Series B Forwards is recorded in earnings within *Unrealized losses/(gains) on available for sale debt securities* on the condensed consolidated statements of comprehensive income.

MorphoSys Development Funding Bonds

On June 2, 2021, we announced a long-term strategic funding partnership with MorphoSys AG ("MorphoSys") to support MorphoSys' acquisition of Constellation Pharmaceuticals, Inc. ("Constellation"), which closed on July 15, 2021. As part of the funding agreement, we agreed to provide MorphoSys up to $350 million of capital (the "Development Funding Bonds"), which MorphoSys may draw over a one-year period from the close of its acquisition of Constellation. MorphoSys is required to draw a minimum of $150 million. As of September 30, 2021, MorphoSys has not drawn any amount under the Development Funding Bonds. Our commitment to fund at least $150 million of the Development Funding Bonds is recognized as the Development Funding Bond Forward. Once drawn, we expect to receive a return of 2.2 times the amount funded on the Development Funding Bonds payable on a quarterly basis over nine years, with the first payment beginning two years after the funding.

We have elected the fair value option to account for the Development Funding Bond Forward as it most accurately reflects the nature of the instrument. The Development Funding Bond Forward is recorded within *Available for sale debt securities* in our condensed consolidated balance sheet. The unrealized change in fair value of the Development Funding Bond Forward is recorded in earnings within *Unrealized losses/(gains) on available for sale debt securities* on the condensed consolidated statements of comprehensive income.

The table below summarizes our available for sale debt securities recorded at fair value as of September 30, 2021 and December 31, 2020 (in thousands):

	Cost (1)	Unrealized gains/(losses)	Fair Value	Current Assets	Non-Current Assets	Total
As of September 30, 2021						
Series A Biohaven Preferred Shares	$ 139,342	$ 36,758	$ 176,100	$ 67,016	$ 109,084	$ 176,100
Series B Biohaven Preferred Shares	52,755	14,945	67,700	—	67,700	67,700
Series B Forwards	—	13,800	13,800	—	13,800	13,800
Development Funding Bond Forward	—	(1,900)	(1,900)	—	(1,900)	(1,900)
Total available for sale debt securities	**$ 192,097**	**$ 63,603**	**$ 255,700**	**$ 67,016**	**$ 188,684**	**$ 255,700**
As of December 31, 2020						
Series A Biohaven Preferred Shares	$ 145,647	$ 68,753	$ 214,400	$ 69,984	$ 144,416	$ 214,400
Series B Forwards	—	18,600	18,600	—	18,600	18,600
Total available for sale debt securities	**$ 145,647**	**$ 87,353**	**$ 233,000**	**$ 69,984**	**$ 163,016**	**$ 233,000**

(1) Cost for Series A Biohaven Preferred Shares represents amortized cost. Cost for Series B Biohaven Preferred Shares represents the amounts paid to purchase the instruments. There were no costs associated with the Series B Forwards and Development Funding Bond Forward.

4. Derivative Instruments

We have historically managed the impact of foreign currency exchange rate and interest rate risk through various financial instruments, including derivative instruments such as treasury rate lock contracts, interest rate swap contracts and foreign currency forward contracts. Our policy is to use derivatives strategically to hedge existing and future interest rate exposure and to minimize volatility in cash flow arising from our exposure to interest rate risk and foreign currency risk. We may also acquire other financial instruments that are classified as derivatives. We do not enter into derivative instruments for trading or speculative purposes.

Treasury rate lock contracts

In June 2021, we entered into treasury rate lock contracts with notional amounts totaling $600.0 million to manage the impact of fluctuations in the underlying benchmark interest rate associated with the 2021 Notes (as further discussed and defined in Note 11–Borrowings). The treasury rate lock contracts were not designated as hedge instruments. All of the treasury rate lock contracts had collateral requirements. The treasury rate lock contracts were unwound and settled in connection with the issuance of the 2021 Notes and the resulting net loss was recognized in earnings in the nine months ended September 30, 2021. We paid $16.1 million in July 2021 to terminate our treasury rate lock contracts.

Interest rate swaps

In February 2020, RPIFT terminated all outstanding interest rate swaps in connection with the Exchange Offer Transactions. We paid $35.4 million to terminate these swaps and reclaimed $45.3 million of collateral that was held by the respective counterparties. During the nine months ended September 30, 2020, we recorded losses of $10.9 million on interest rate swaps in the condensed consolidated statements of comprehensive income. As of September 30, 2021, we do not hold any interest rate swap contracts.

Epizyme put option and warrant

In November 2019, RPIFT made an equity investment in Epizyme, Inc. (“Epizyme”) of $100.0 million. Under the terms of the agreement with Epizyme, we made an upfront payment of $100.0 million for (1) shares of Epizyme common stock, (2) a warrant to purchase an additional 2.5 million shares of Epizyme common stock at $20 per share over a three-year term, and (3) Epizyme’s royalty on sales of Tazemetostat in Japan payable by Eisai Co., Ltd (“Eisai”). In addition, Epizyme had an 18 month put option to sell an additional $50.0 million of its common stock to RPIFT at then prevailing prices, not to exceed $20 per share, which Epizyme exercised in February 2020.

The warrant was recognized at fair value of $0.1 million and $5.4 million within *Other Assets* on the condensed consolidated balance sheets as of September 30, 2021 and December 31, 2020, respectively. We recorded unrealized losses on derivative financial instruments of $1.8 million and $5.3 million related to the change in the fair value of the warrant on the condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2021, respectively. We recorded unrealized losses on derivative financial instruments of $7.1 million and $23.2 million related to the change in the fair value of the warrant on the condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2020, respectively.

Summary of derivatives and reclassifications

The tables below summarize the change in the fair value of derivatives for the three and nine months ended September 30, 2021 and 2020 and the line items within the condensed consolidated statements of comprehensive income where the gains or losses on derivatives are recorded (in thousands).

	For the three months ended September 30,		Location on Condensed Consolidated Statements of Comprehensive Income
	2021	2020	
Derivatives not designated as hedging instruments			
Warrant:			
Change in fair value of warrant	$ 1,847	$ 7,088	Losses on derivative financial instruments
Treasury rate lock contracts:			
Change in fair value of treasury rate lock contracts	15,125	—	Losses on derivative financial instruments

	For the nine months ended September 30,		Location on Condensed Consolidated Statements of Comprehensive Income
	2021	2020	
Derivatives in hedging relationships (1)			
Interest Rate Swaps:			
Amount of loss reclassified from accumulated other comprehensive income into income	$ —	$ 4,066	Losses on derivative financial instruments
Change in fair value of interest rate swaps	—	(73)	Losses on derivative financial instruments
Interest expense	—	114	Interest expense
Derivatives not designated as hedging instruments			
Interest Rate Swaps:			
Change in fair value of interest rate swaps	—	6,908	Losses on derivative financial instruments
Interest expense	—	408	Interest expense
Warrant:			
Change in fair value of warrant	5,343	23,185	Losses on derivative financial instruments
Forward purchase contract:			
Change in fair value of forward purchase contract	—	5,800	Losses on derivative financial instruments
Treasury rate lock contracts:			
Change in fair value of treasury rate lock contracts	16,093	—	Losses on derivative financial instruments

(1) Certain interest rate swaps were previously designated as cash flow hedges. These swaps became ineffective as debt refinancings occurred between 2013 and 2016. As a result of the termination of interest rate swaps in February 2020, all amounts associated with interest rate swaps previously designated as cash flow hedges and recorded in *Accumulated other comprehensive income* were released into earnings.

5. Fair Value Measurements and Financial Instruments

Fair value measurements

The summary below presents information about our assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2021 and December 31, 2020, and the valuation techniques we utilized to determine such fair value.

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. Our Level 1 assets consist of equity securities with readily determinable fair values and money market funds.

- Level 2: Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly. Our Level 2 assets generally include marketable securities, warrants, derivatives, and, historically, our interest rate swap contracts and treasury rate lock contracts.

- Level 3: Prices or valuation that require inputs that are both significant to the fair value measurement and unobservable. Our Level 3 assets consist of our investments in the Series A Biohaven Preferred Shares, Series B Biohaven Preferred Shares, the Series B Forwards and the Development Funding Bond Forward. See Note 3–Available for Sale Debt Securities for a description of these investments.

For financial instruments which are carried at fair value, the level in the fair value hierarchy is based on the lowest level of inputs that is significant to the fair value measurement in its entirety.

Fair value hierarchy

The following is a summary of the inputs used to value our financial assets and liabilities measured at fair value as of September 30, 2021 and December 31, 2020 (in thousands):

	As of September 30, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Cash equivalents				
Money market funds	$ 1,051,540	$ —	$ —	$ 1,051,540
Commercial paper	—	9,698	—	9,698
Certificates of deposit	—	5,100	—	5,100
Marketable securities				
Commercial paper	—	41,977	—	41,977
Certificates of deposit	—	203,768	—	203,768
Available for sale debt securities	—	—	67,016	67,016
Total current assets	**$ 1,051,540**	**$ 260,543**	**$ 67,016**	**$ 1,379,099**
Equity securities	$ 264,765	$ —	$ —	$ 264,765
Available for sale debt securities	—	—	176,784	176,784
Forwards (1)	—	—	11,900	11,900
Warrant (2)	—	96	—	96
Total non-current assets	**$ 264,765**	**$ 96**	**$ 188,684**	**$ 453,545**

(1) The Series B Forwards and the Development Funding Bond Forward, recorded within *Available for sale debt securities* in the condensed consolidated balance sheet as of September 30, 2021, relate to our obligations to fund the acquisition of the Series B Biohaven Preferred Shares and $150 million of the Development Funding Bonds, respectively. See Note 3–Available for Sale Debt Securities for additional discussion.

(2) Related to the Epizyme transaction as described in Note 4–Derivative Instruments and recorded in *Other assets* in the condensed consolidated balance sheet as of September 30, 2021.

For the three and nine months ended September 30, 2021, we recognized unrealized losses of $19.3 million and $30.0 million, on equity securities still held as of September 30, 2021, respectively. For the three and nine months ended September 30, 2020, we recognized unrealized losses of $46.9 million and $98.6 million on equity securities still held as of September 30, 2021, respectively.

	As of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents				
Money market funds	$ 24,302	$ —	$ —	$ 24,302
Commercial paper	—	77,176	—	77,176
Certificates of deposit	—	74,502	—	74,502
Marketable securities				
Corporate debt securities	—	32,754	—	32,754
Commercial paper	—	444,554	—	444,554
Certificates of deposit	—	505,971	—	505,971
Available for sale debt securities	—	—	69,984	69,984
Total current assets	**$ 24,302**	**$ 1,134,957**	**$ 69,984**	**$ 1,229,243**
Equity securities (1)	$ 298,689	$ —	$ —	$ 298,689
Available for sale debt securities	—	—	144,416	144,416
Forwards (2)	—	—	18,600	18,600
Warrant (3)	—	5,439	—	5,439
Total non-current assets	**$ 298,689**	**$ 5,439**	**$ 163,016**	**$ 467,144**

(1) Upon Gilead's acquisition of Immunomedics in October 2020, our investment in Immunomedics common stock was redeemed, resulting in a gain of $292.3 million recognized within *Losses/(gains) on equity securities* in the year ended December 31, 2020.
(2) The Series B Forwards, recorded within *Available for sale debt securities* in the condensed consolidated balance sheet as of December 31, 2020, relate to our obligation to fund the acquisition of the Series B Biohaven Preferred Shares.
(3) Related to the Epizyme transaction as described in Note 4–Derivative Instruments and recorded in *Other assets* in the condensed consolidated balance sheet as of December 31, 2020.

The tables presented below summarize the change in the combined carrying value (current and non-current) of Level 3 financial instruments, which relate to available for sale debt securities, including debt securities and forwards (in thousands).

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
Debt Securities				
Balance at the beginning of the period	$ 240,400	$ —	$ 214,400	$ 131,280
Purchases	17,585	—	52,755	—
Unrealized (losses)/gains on available for sale debt securities (1)	(2,775)	—	8,875	52,725
Settlement of forwards (2)	4,215	—	14,645	—
Transfer to Level 2	—	—	—	(184,005)
Redemption	(15,625)	—	(46,875)	—
Balance at the end of the period	**$ 243,800**	**$ —**	**$ 243,800**	**$ —**

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
Forwards				
Balance at the beginning of the period	$ 30,800	$ —	$ 18,600	$ —
Unrealized (losses)/gains included in earnings (3)	(14,685)	—	7,945	—
Settlement of forwards (2)	(4,215)	—	(14,645)	—
Balance at the end of the period	**$ 11,900**	**$ —**	**$ 11,900**	**$ —**

(1) The unrealized change in the fair value of the Series A Biohaven Preferred Shares is recorded in other comprehensive income within Unrealized (losses)/gains on available for sale debt securities while the unrealized change in the fair value of the Series B Biohaven Preferred Shares is recorded in earnings within Unrealized losses/(gains) on available for sale debt securities on the condensed consolidated statements of comprehensive income.

(2) Reflects the fair value attributed to the Series B Forwards that were settled in the period as the Series B Biohaven Preferred Shares were acquired, which is included in the fair value of the Series B Biohaven Preferred Shares. See Note 3–Available for Sale Debt Securities.

(3) Recorded in earnings within *Unrealized losses/(gains) on available for sale debt securities* on the condensed consolidated statements of comprehensive income.

Valuation inputs

Below is a discussion of the valuation inputs used for financial instruments classified as Level 2 and Level 3 measurements in the fair value hierarchy.

Investment in Series A Biohaven Preferred Shares

The fair value of the Series A Biohaven Preferred Shares as of September 30, 2021 and December 31, 2020 was based on the cash flows due to us from Biohaven of two times (2x) the original purchase price of the Series A Biohaven Preferred Shares payable in equal quarterly installments of $15.6 million following the FDA approval and starting one-year after FDA approval, through December 31, 2024. The FDA approved Nurtec ODT in February 2020, at which point we became entitled to receive a fixed payment amount of $250.0 million payable in equal quarterly payments from March 31, 2021 through December 31, 2024.

The fair value of the Series A Biohaven Preferred Shares as of September 30, 2021 and December 31, 2020 was calculated using probability-adjusted discounted cash flow calculations incorporating Level 3 fair value measurements and inputs, including estimated risk-adjusted discount rates and the probability of a change of control event occurring during the investment term, which would result in accelerated payments and redemptions. Assessing the probability that there will be a change of control event over a four-year time period and developing a risk-adjusted discount rate requires significant judgement. Our estimate of a risk adjusted discount rate of 9.3% as of September 30, 2021 and 8.3% as of December 31, 2020 could reasonably be different than the discount rate selected by a market participant in the event of a sale of the Series A Biohaven Preferred Shares, which would mean that the estimated fair value could be significantly higher or lower.

Our investment in the Series A Biohaven Preferred Shares was transferred from a Level 3 asset to a Level 2 asset in February 2020, when Nurtec ODT received FDA approval, at which time we began using a discounted cash flow analysis that relied on observable inputs. During the three months ended December 31, 2020, information pertaining to Biohaven's issuance of debt and its effective interest rate became available and we refined our valuation of the Series A Biohaven Preferred shares as of December 31, 2020 to incorporate this significant unobservable input. As a result, we reclassified the investment from a Level 2 to a Level 3 asset during the three months ended December 31, 2020.

Investment in Series B Biohaven Preferred Shares

The fair value of the Series B Biohaven Preferred Shares as of September 30, 2021 and the fair value of the Series B Forwards as of September 30, 2021 and December 31, 2020 were based on probability-adjusted discounted cash flow calculations using Level 3 fair value measurements and inputs, including estimated risk-adjusted discount rates and the probability that there will be a change of control event in different periods of time, which would result in accelerated payments and redemptions. Assessing the probability that there will be a change of control event over a 10-year time period and developing a risk-adjusted discount rate requires significant judgement. Our expectation of the probability and timing of the occurrence of a change of control event could reasonably be different than the timing of an actual change of control event, and if so, would mean that the estimated fair value could be significantly higher or lower than the fair value determined by management at any particular date. Our estimate of a risk adjusted discount rate could reasonably be different than the discount rate selected by a market participant in the event of a sale of the Series B Biohaven Preferred Shares or the Series B Forwards, which would mean that the estimated fair value could be significantly higher or lower.

MorphoSys Development Funding Bonds

The fair value of the Development Funding Bond Forward as of September 30, 2021 was based on a discounted cash flow calculation using an estimated risk-adjusted discount rate, which is a Level 3 fair value input. Our estimate of a risk adjusted discount rate could reasonably be different than the discount rate selected by a market participant in the event of a sale of the instrument, which would mean that the estimated fair value could be significantly higher or lower. We have elected the fair value option to account for the Development Funding Bond Forward as it most accurately reflects the nature of the instrument.

Other financial instruments

We use third party pricing services for Level 2 inputs used to value cash equivalents, marketable securities, derivative instruments and borrowings, which provide documentation on an ongoing basis that includes, among other things, pricing information with respect to reference data, methodology, inputs summarized by asset class, pricing application and corroborative information. Warrants are valued using a Black-Scholes option pricing model which considers observable and unobservable inputs.

Financial assets not measured at fair value

Financial royalty assets are measured and carried on the condensed consolidated balance sheets at amortized cost using the effective interest method. The current portion of financial royalty assets approximates fair value. The fair value of financial royalty assets is calculated by management using the forecasted royalty payments we expect to receive based on the projected product sales for all royalty bearing products as estimated by sell-side equity research analysts' consensus forecasts or, where such consensus forecasts are not available, management uses reasonable judgment to make assumptions about the projected product sales. These projected future royalty payments by asset are then discounted to a present value using appropriate individual discount rates. The fair value of our financial royalty assets is classified as Level 3 within the fair value hierarchy since it is determined based upon inputs that are both significant and unobservable. Estimated fair values based on Level 3 inputs and related carrying values for the non-current portion of our financial royalty assets as of September 30, 2021 and December 31, 2020 are presented below (in thousands).

	September 30, 2021		December 31, 2020	
	Fair value	Carrying value, net	Fair value	Carrying value, net
Financial royalty assets, net	$ 19,948,342	$ 14,014,116	$ 18,718,179	$ 12,368,084

6. Financial Royalty Assets, Net

Financial royalty assets, net consist of contractual rights to cash flows relating to royalty payments derived from the expected sales of patent-protected biopharmaceutical products that entitle us and our subsidiaries to receive a portion of income from the sale of such products by third parties.

The gross carrying value, cumulative allowance for changes in expected cash flows, exclusive of the allowance for credit losses, and net carrying value for the current and non-current portion of financial royalty assets as of September 30, 2021 and December 31, 2020 are as follows (in thousands):

		As of September 30, 2021		
	Estimated royalty duration (a)	Gross carrying value	Cumulative allowance for changes in expected cash flows (Note 7)	Net carrying value (e)
Cystic fibrosis franchise	2037 (b)	$ 5,332,434	$ —	$ 5,332,434
Tysabri	(c)	1,885,084	—	1,885,084
Imbruvica	2027-2032	1,431,999	(154,414)	1,277,585
Xtandi	2027-2028	1,114,530	(146,162)	968,368
Tremfya	2031-2032	890,825	—	890,825
Evrysdi	2030-2035 (d)	713,436	—	713,436
Other	2020-2039	4,653,994	(827,489)	3,826,505
Total		**$ 16,022,302**	**$ (1,128,065)**	**$ 14,894,237**
Less: Cumulative allowance for credit losses (Note 7)				(300,375)
Total financial royalty assets, net				**$ 14,593,862**

(a) Dates shown represent management's estimates as of the current reporting date of when a royalty will substantially end, which may depend on our estimates of patent expiration dates (which may include estimated patent term extensions) or other factors and may vary by geography. Royalty expiration dates can change due to patent, regulatory, commercial or other developments. There can be no assurances that our royalties will expire when expected.
(b) Royalty is perpetual; year shown represents Trikafta expected patent expiration and potential sales decline based on timing of generic entry.
(c) Under terms of the agreement, RPIFT acquired a perpetual royalty on net sales of Tysabri. Management has applied an end date of 2031 for purposes of accreting income over the royalty term, which is periodically reviewed.
(d) Key patents on Evrysdi in the United States expire in 2035, but our royalty will cease when aggregate royalties paid to us equal $1.3 billion.
(e) The net carrying value by asset is presented before the allowance for credit losses. Refer to Note 7–Cumulative Allowance and the Provision for Changes in Expected Cash Flows from Financial Royalty Assets for additional information.

		As of December 31, 2020		
	Estimated royalty duration (a)	Gross carrying value	Cumulative allowance for changes in expected cash flows (Note 7)	Net carrying value (e)
stic fibrosis franchise	2037 (b)	$ 5,274,896	$ —	5,274,896
;abri	(c)	2,003,797	(112,720)	1,891,077
bruvica	2027-2032	1,406,291	(46,872)	1,359,419
ındi	2027-2028	1,150,335	(145,565)	1,004,770
)macta	2025-2028	686,129	—	686,129
rysdi	2030-2035 (d)	675,440	—	675,440
ıer	2020-2039	3,022,213	(634,950)	2,387,263
'otal		**$ 14,219,161**	**$ (940,107)**	**13,278,994**
Less: Cumulative allowance for credit losses (Note 7)				(323,717)
Total financial royalty assets, net				**$ 12,955,277**

(a) Dates shown represent management's estimates as of the current reporting date of when a royalty will substantially end, which may depend on our estimates of patent expiration dates (which may include estimated patent term extensions) or other factors and may vary by geography. Royalty expiration dates can change due to patent, regulatory, commercial or other developments. There can be no assurances that our royalties will expire when expected.
(b) Royalty is perpetual; year shown represents Trikafta expected patent expiration and potential sales decline based on timing of generic entry.
(c) Under terms of the agreement, RPIFT acquired a perpetual royalty on net sales of Tysabri. Management has applied an end date of 2031 for purposes of accreting income over the royalty term, which is periodically reviewed.
(d) Key patents on Evrysdi in the United States expire in 2035, but our royalty will cease when aggregate royalties paid to us equal $1.3 billion.
(e) The net carrying value by asset is presented before the allowance for credit losses. Refer to Note 7–Cumulative Allowance and the Provision for Changes in Expected Cash Flows from Financial Royalty Assets for additional information.

7. Cumulative Allowance and the Provision for Changes in Expected Cash Flows from Financial Royalty Assets

The cumulative allowance for changes in expected future cash flows from financial royalty assets is presented net within the non-current portion of *Financial royalty assets, net* on the condensed consolidated balance sheets and includes the following activities:

- the movement in the cumulative allowance related to changes in forecasted royalty payments we expect to receive based on projected product sales for royalty bearing products as estimated by sell-side equity research analysts' consensus forecasts, and
- the movement in the cumulative allowance for current expected credit losses.

The periodic movement in the cumulative allowance is presented on the condensed consolidated statements of comprehensive income as the *Provision for changes in expected future cash flows from financial royalty assets*.

Upon the January 1, 2020 adoption of ASU 2016-13, we recorded a cumulative adjustment to *Retained earnings* of $192.7 million to recognize an allowance for current expected credit losses on our portfolio of financial royalty assets. The current period provision for changes in expected cash flows from financial royalty assets reflects the activity for the period that relates to the change in estimates applied to calculate the allowance for credit losses, namely any new financial royalty assets with limited protective rights and changes in the underlying cash flow forecasts used in the effective interest model to measure income from our financial royalty assets.

The following table sets forth the activity in the cumulative allowance for changes in expected cash flows from financial royalty assets, inclusive of the cumulative allowance for credit losses, as of the dates indicated (in thousands).

	Activity for the period
Balance at December 31, 2020 (a)	$ (1,263,824)
Increases to the cumulative allowance for changes in expected cash flows from financial royalty assets	(611,835)
Decreases to the cumulative allowance for changes in expected cash flows from financial royalty assets	402,155
Write-off of cumulative allowance (b)	21,721
Current period provision income for credit losses, net (c)	23,343
Balance at September 30, 2021	**$ (1,428,440)**

(a) Includes $323.7 million related to cumulative allowance for credit losses.
(b) Relates to amounts removed from the allowance at the end of a royalty asset's life to bring the account balance to zero. Write-offs solely impact the asset account and allowance account; there is no impact on the condensed consolidated statements of comprehensive income.
(c) Primarily related to the provision income driven by a significant decrease in the cumulative allowance related to Tazverik as a result of the significant decline in the related financial asset value. The provision income was partially offset by provision expense recognized during the period primarily driven by increases to our portfolio of financial royalty assets in the nine months ended September 30, 2021, including the $100.0 million increase to our zavegepant financial royalty asset related to the funding payment we made to Biohaven upon the start of the oral zavegepant Phase 3 program, and a new royalty interest in Cabometyx/Cometriq.

8. Intangible Royalty Assets, Net

The following schedules of the intangible royalty assets present the cost, accumulated amortization and net carrying value as of September 30, 2021 and December 31, 2020 (in thousands).

As of September 30, 2021	Cost	Accumulated amortization	Net carrying value
DPP-IV patents	$ 606,216	$ 594,750	$ 11,466
Total intangible royalty assets	$ 606,216	$ 594,750	$ 11,466

As of December 31, 2020	Cost	Accumulated amortization	Net carrying value
DPP-IV patents	$ 606,216	$ 577,550	$ 28,666
Total intangible royalty assets	$ 606,216	$ 577,550	$ 28,666

The majority of our DPP-IV patents associated with the intangible royalty assets terminate at various dates through 2022. The weighted average remaining life of the intangible royalty assets is less than one year. We project amortization expense will be $5.8 million and $5.7 million in the remainder of 2021 and 2022, respectively.

Our revenue is tied to underlying patent protected sales of other DPP-IV products of various licensees. Such revenue from royalty assets is earned from sales occurring primarily in the United States and Europe; however, we do not have the ability to disaggregate our royalty revenue from licensees based on the geography of the underlying sales, as this level of information is not always included in royalty reports provided to us. The marketers paying us royalties on these products do not always provide, and are not necessarily required to provide, the breakdown of product sales by geography. Individual licensees exceeding 10% or more of revenue from intangible royalty assets accounted for 63% and 96% of our revenues from intangible royalty assets in the three months ended September 30, 2021 and 2020, respectively. Individual licensees exceeding 10% or more of revenue from intangible royalty assets accounted for 80% and 96% of our revenues from intangible royalty assets in the nine months ended September 30, 2021 and 2020, respectively.

9. Non-Consolidated Affiliates

The Legacy SLP Interest

In connection with the Exchange Offer Transactions, we acquired a special limited partnership interest in the Legacy Investors Partnerships (the "Legacy SLP Interest") from the Continuing Investors Partnerships for $303.7 million in exchange for issuing shares in our subsidiary. As a result, we became a special limited partner in the Legacy Investors Partnerships. The Legacy SLP Interest entitles us to the equivalent of performance distribution payments that would have been paid to the general partner of the Legacy Investors Partnerships and an income allocation on a similar basis. Our income allocation is equal to the general partner's former contractual rights to the income of the Legacy Investors Partnerships. The Legacy SLP Interest is treated as an equity method investment as our Manager is also the Manager of the Legacy Investors Partnerships and has the ability to exercise significant influence. The Legacy Investors Partnerships no longer participate in investment opportunities from June 30, 2020 and, as such, the value of the Legacy SLP Interest is expected to decline over time. The Legacy Investors Partnerships also own a non-controlling interest in Old RPI.

The income allocation from the Legacy SLP Interest is based on an estimate, as the Legacy Investors Partnerships are private partnerships that are expected to report on a lag subsequent to the date of this quarterly report. Management's estimate of equity in earnings from the Legacy SLP Interest for the current period will be updated for historical results in the subsequent period. During the three and nine months ended September 30, 2021, we recorded an income allocation of $11.2 million and $41.9 million, respectively. During the three and nine months ended September 30, 2020, we recorded an income allocation of $24.2 million and $47.6 million, respectively. The income allocation for the nine months ended September 30, 2020 related to the period subsequent to the Exchange Date. The income allocation from the Legacy SLP Interest is recorded within *Equity in earnings of non-consolidated affiliates*. We received cash distributions from the Legacy SLP Interest of $6.2 million and $14.8 million in the three and nine months ended September 30, 2021, respectively. We received cash distributions from the Legacy SLP Interest of $4.2 million and $16.4 million during the three and nine months ended September 30, 2020, respectively.

The Avillion Entities

We account for our partnership interests in Avillion Financing I, LP ("Avillion I") and BAv Financing II, LP ("Avillion II", or, together, the "Avillion Entities") as equity method investments because RPIFT has the ability to exercise significant influence over the entities. During the three and nine months ended September 30, 2021, we recorded a loss allocation of $8.4 million and $23.4 million, respectively. During the three and nine months ended September 30, 2020, we recorded a loss allocation of $10.5 million and $13.6 million, respectively. The loss allocation from the Avillion Entities is recorded within *Equity in earnings of non-consolidated affiliates*.

On December 19, 2017, the FDA approved a supplemental New Drug Application for Pfizer's Bosulif. Avillion I is eligible to receive fixed payments from Pfizer based on this approval. Subsequent to the asset sale, the only operations of Avillion I are the collection of cash and unwinding of discount on the series of fixed annual payments due from Pfizer. We received distributions of $13.4 million from Avillion I during each of the nine months ended September 30, 2021 and 2020 in connection with Avillion I's receipt of the fixed annual payments due under its co-development agreement with Pfizer.

In March 2017, RPIFT entered into an agreement with Avillion II, which was amended in 2019, to invest approximately $19.0 million to fund approximately 50% of the costs of a Phase 2 clinical trial for the use of Merck KGaA's anti-IL 17 nanobody M1095 (the "Merck KGaA Asset") for the treatment of psoriasis in exchange for certain milestone and royalty payments. Our involvement in the development for the Merck KGaA Asset ceased in 2020, for which we received a distribution of $21.3 million from Avillion II during the three months ended June 30, 2020.

In May 2018, RPIFT entered into an additional agreement, which was amended in July 2021, to invest up to $122.5 million in Avillion II over multiple years to fund approximately 44% of the costs of Phase 2 and 3 clinical trials to advance PT027 (the "AZ Asset") through a global clinical development program for the treatment of asthma in exchange for royalties, a series of success-based milestones and other potential payments.

As of September 30, 2021 and December 31, 2020, RPIFT had $17.8 million and $28.6 million, respectively, of unfunded commitments related to the Avillion Entities. Our maximum exposure to loss at any particular reporting date is limited to the current carrying value of the investment plus the unfunded commitments.

10. Research & Development ("R&D") Funding Expense

R&D funding expense consists of (1) upfront R&D payments we have made to counterparties to acquire royalties on development-stage product candidates and (2) ongoing R&D expense to fund development-stage product candidates undergoing clinical trials with our partners in exchange for royalties if the products are successfully developed and commercialized.

During the nine months ended September 30, 2021, we did not enter into any new ongoing R&D funding arrangements. However, as part of a long-term strategic funding partnership with MorphoSys which closed on July 15, 2021 (as further discussed in Note 17–Commitments and Contingencies), we allocated $90.0 million of the upfront payment to two development-stage products in exchange for future royalties as upfront R&D funding expense. This amount is included in the total R&D funding expense of $90.5 million and $96.3 million for the three and nine months ended September 30, 2021, respectively. The remaining R&D funding expense incurred in 2021 was related to ongoing development-stage funding payments, primarily under our co-funding agreement with Sanofi.

We recognized R&D funding expense of $5.1 million and $18.5 million for the three and nine months ended September 30, 2020, respectively, primarily related to ongoing development-stage funding payments under our co-funding agreement with Sanofi.

As of September 30, 2021, we have a remaining commitment of $11.1 million related to our R&D funding agreement with Sanofi.

11. Borrowings

Our borrowings as of September 30, 2021 and December 31, 2020 consisted of the following (in thousands):

Type of Borrowing	Date of Issuance	Maturity	September 30, 2021	December 31, 2020
Senior Unsecured Notes:				
$1,000,000, 0.750% (issued at 99.322% of par)	9/2020	9/2023	$ 1,000,000	$ 1,000,000
$1,000,000, 1.200% (issued at 98.875% of par)	9/2020	9/2025	1,000,000	1,000,000
$1,000,000, 1.750% (issued at 98.284% of par)	9/2020	9/2027	1,000,000	1,000,000
$1,000,000, 2.200% (issued at 97.760% of par)	9/2020	9/2030	1,000,000	1,000,000
$600,000, 2.150% (issued at 98.263% of par)	7/2021	9/2031	600,000	—
$1,000,000, 3.300% (issued at 95.556% of par)	9/2020	9/2040	1,000,000	1,000,000
$1,000,000, 3.550% (issued at 95.306% of par)	9/2020	9/2050	1,000,000	1,000,000
$700,000, 3.350% (issued at 97.565% of par)	7/2021	9/2051	700,000	—
Unamortized debt discount and issuance costs			(209,331)	(183,416)
Total debt carrying value			7,090,669	5,816,584
Less: Current portion of long-term debt			—	—
Total long-term debt			$ 7,090,669	$ 5,816,584

Senior Unsecured Notes

On July 26, 2021, we issued $1.3 billion of senior unsecured notes (the "2021 Notes") comprised of $600.0 million principal amount of notes due September 2031 and $700.0 million principal amount of notes due September 2051. Interest on each series of the 2021 Notes accrues at the respective rate per annum and is payable semi-annually in arrears on March 2 and September 2 of each year, beginning on March 2, 2022. The 2021 Notes were issued at a total discount of $27.5 million and we capitalized approximately $12.3 million in debt issuance costs primarily composed of underwriting fees. The 2021 Notes have a weighted average coupon rate and a weighted average effective interest rate of 2.80% and 3.06% as of September 30, 2021, respectively.

On September 2, 2020, we issued $6.0 billion of senior unsecured notes (the "2020 Notes" and, together with the 2021 Notes, the "Notes"). We used the net proceeds from the 2020 Notes offering, together with available cash on hand, to repay in full the senior secured credit facilities. Interest on each series of the 2020 Notes accrues at the respective rate per annum and is payable semi-annually in arrears on March 2 and September 2 of each year. The 2020 Notes were issued at a total discount of $149.0 million and we capitalized approximately $40.4 million in debt issuance costs primarily composed of underwriting fees. The 2020 Notes have a weighted average coupon rate and a weighted average effective interest rate of 2.125% and 2.50% as of September 30, 2021, respectively.

On August 3, 2021, we completed an exchange offer for the 2020 Notes whereby certain holders elected to tender their unregistered outstanding notes for freely tradable exchange notes that were registered under the Securities Act of 1933.

The Notes may be redeemed at our option at a redemption price equal to the greater of (i) 100% of the principal amount of the notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the notes to be redeemed (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semiannual basis at the treasury rate, plus a make-whole premium as defined in the indenture. In each case, accrued and unpaid interest is also required to be redeemed to the date of redemption.

Upon the occurrence of a change of control triggering event and downgrade in the rating of our Notes by two of three credit agencies, the holders may require us to repurchase all or part of their Notes at a price equal to 101% of the aggregate principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any, to the date of repurchase.

Our obligations under the Notes are fully and unconditionally guaranteed by RP Holdings, a non-wholly owned subsidiary. We are required to comply with certain covenants under our Notes and as of September 30, 2021, we were in compliance with all applicable covenants.

Senior Unsecured Revolving Credit Facility

On September 15, 2021, we entered into an amended and restated revolving credit agreement (the "Credit Agreement"). The Credit Agreement amends and restates the existing credit agreement that we entered on September 18, 2020 with our subsidiary RP Holdings, as borrower, which provided for a five-year unsecured revolving credit facility (the "Revolving Credit Facility") with borrowing capacity of up to $1.5 billion for general corporate purposes. The Credit Agreement extends the maturity of the Revolving Credit Facility to September 15, 2026. As of September 30, 2021 and December 31, 2020, there were no outstanding borrowings under the Revolving Credit Facility.

The Revolving Credit Facility is subject to an interest rate, at our option, of either (a) a base rate determined by reference to the highest of (1) the administrative agent's prime rate, (2) the federal funds effective rate and the overnight bank funding rate, plus 0.5% and (3) the one month adjusted LIBOR, plus 1% or (b) the Eurocurrency Rate or the Alternative Currency Daily Rate (each as defined in the Credit Agreement), plus in each case, the applicable margin. The applicable margin for the Revolving Credit Facility varies based on our public debt rating. Accordingly, the interest rates for the Revolving Credit Facility fluctuates during the term of the facility based on changes in the applicable interest rate and future changes in our public debt rating.

The Credit Agreement that governs the Revolving Credit Facility contains certain customary covenants, that among other things, require us to maintain (i) a consolidated leverage ratio at or below 4.00 to 1.00 (or at or below 4.50 to 1.00 following a qualifying material acquisition) of consolidated funded debt to consolidated EBITDA, each as defined and calculated with the ratio level calculated with further adjustments as set forth in the Credit Agreement and (ii) a consolidated coverage ratio at or above 2.50 to 1.00 of consolidated EBITDA to consolidated interest expense, each as defined and calculated with further adjustments as set forth in the Credit Agreement. All obligations under the Revolving Credit Facility are unconditionally guaranteed by us. As of September 30, 2021, RP Holdings was in compliance with these covenants.

Senior Secured Credit Facilities

On February 11, 2020, in connection with the Exchange Offer Transactions (as discussed in Note 1–Organization and Purpose) and using funds contributed by RPI Intermediate FT and the Legacy Investors Partnerships, RPIFT repaid its outstanding debt and accrued interest, and terminated all outstanding interest rate swaps. RPI Intermediate FT, as borrower, entered into a term loan credit agreement with Bank of America, N.A., as administrative agent, the lenders party thereto from time to time and the other parties thereto. The senior secured credit facilities consisted of a term loan A and term loan B in the amounts of $3.20 billion and $2.84 billion, respectively. In September 2020, we repaid in full the outstanding principal amounts of term loans under the senior secured credit facilities with net proceeds from the 2020 Notes and available cash on hand. In the three and nine months ended September 30, 2020, we recorded a loss on debt extinguishment of $25.1 million as part of *Other non-operating expense, net* which primarily consisted of unamortized loan issuance costs and original issue discount related to our senior secured credit facilities, which we wrote off in connection with the repayment.

RPIFT Senior Secured Credit Facilities

The RPIFT Senior Secured Credit Facilities were repaid in full in February 2020 in connection with the Exchange Offer Transactions. We recorded a loss on debt extinguishment of $5.4 million as part of *Other non-operating expense, net,* during the nine months ended September 30, 2020.

Principal Payments on the Notes

The future principal payments for our borrowings as of September 30, 2021 over the next five years and thereafter are as follows (in thousands):

Year	Principal Payments
Remainder of 2021	$ —
2022	—
2023	1,000,000
2024	—
2025	1,000,000
Thereafter	5,300,000
Total (1)	$ 7,300,000

(1) Excludes unamortized debt discount and issuance costs of $209.3 million as of September 30, 2021, which are amortized through interest expense over the remaining life of the underlying debt obligations.

As of September 30, 2021, the fair value of our outstanding Notes was approximately $7.1 billion. The Notes are classified as a Level 2 measurement within the fair value hierarchy.

12. Shareholders' Equity

Capital structure

Following the completion of our IPO as discussed in Note 1–Organization and Purpose, we have two classes of voting shares: Class A ordinary shares and Class B ordinary shares, each of which has one vote per ordinary share. The Class A ordinary shares and Class B ordinary shares vote together as a single class on all matters submitted to a vote of shareholders, except as otherwise required by applicable law. Our Class B ordinary shares are not publicly traded and holders of Class B ordinary shares only have limited rights to receive a distribution equal to their nominal value upon a liquidation, dissolution or winding up of the Company.

An exchange agreement entered into by us, RP Holdings, the Continuing Investors Partnerships, RPI International Partners 2019, LP and EPA Holdings (the "Exchange Agreement") governs the exchange of RP Holdings Class B Interests held by the Continuing Investors Partnerships for Class A ordinary shares. Pursuant to the Exchange Agreement, RP Holdings Class B interests are exchangeable on a one-for-one basis for Class A ordinary shares on a quarterly basis. As of September 30, 2021, we have outstanding 429,511 thousand Class A ordinary shares and 177,663 thousand Class B ordinary shares. Each such exchange also results in the re-designation of the same number of our Class B ordinary shares as deferred shares. As of September 30, 2021, we have outstanding deferred shares of 357,720 thousand.

In addition, we have in issue 50 thousand Class R redeemable shares, which do not entitle the holder to voting or dividend rights. The purpose of the Class R redeemable shares was to ensure Royalty Pharma Limited had sufficient sterling denominated share capital at the time it was re-registered as a public limited company to Royalty Pharma plc, as required by the U.K. Companies Act. The Class R redeemable shares may be redeemed at our option in the future. Any such redemption would be at the nominal value of £1 each.

Non-controlling interests

The net change in the balance of our four non-controlling interests for the three and nine months ended September 30, 2021 and 2020 is as follows (in thousands):

	RPSFT	Legacy Investors Partnerships	Continuing Investors Partnerships (1)	EPA Holdings	Total
June 30, 2021	**$ 20,640**	**$ 1,894,027**	**$ 2,757,019**	**$ —**	**$ 4,671,686**
Contributions	—	3,300	2,730	—	6,030
Distributions	(18,562)	(109,780)	(31,372)	—	(159,714)
Net income	13,851	63,424	42,592	—	119,867
Other exchanges	—	—	(38,305)	—	(38,305)
Other comprehensive income:					
Unrealized losses on available for sale debt securities	—	(453)	(625)	—	(1,078)
Reclassification of unrealized gains on available for sale debt securities	—	(2,066)	(2,856)	—	(4,922)
September 30, 2021	**$ 15,929**	**$ 1,848,452**	**$ 2,729,183**	**$ —**	**$ 4,593,564**

(1) Related to the Continuing Investors Partnerships' ownership as of September 30, 2021 of approximately 29% of RP Holdings through their ownership of the RP Holdings Class B Interests. Royalty Pharma plc owns the remaining 71% of RP Holdings through its ownership of RP Holdings Class A Interests and RP Holdings Class B Interests as of September 30, 2021.

	RPSFT	Legacy Investors Partnerships	Continuing Investors Partnerships (1)	EPA Holdings	Total
December 31, 2020	**$ 12,436**	**$ 1,939,509**	**$ 3,125,091**	**$ —**	**$ 5,077,036**
Contributions	—	13,207	7,596	—	20,803
Distributions	(44,691)	(332,069)	(99,141)	—	(475,901)
Net income	48,184	233,424	294,098	—	575,706
Other exchanges	—	—	(589,968)	—	(589,968)
Other comprehensive income:					
Unrealized gains on available for sale debt securities	—	1,507	2,505	—	4,012
Reclassification of unrealized gains on available for sale debt securities	—	(7,126)	(10,998)	—	(18,124)
September 30, 2021	**$ 15,929**	**$ 1,848,452**	**$ 2,729,183**	**$ —**	**$ 4,593,564**

(1) Related to the Continuing Investors Partnerships' ownership as of September 30, 2021 of approximately 29% of RP Holdings through their ownership of the RP Holdings Class B Interests. Royalty Pharma plc owns the remaining 71% of RP Holdings through its ownership of RP Holdings Class A Interests and RP Holdings Class B Interests as of September 30, 2021.

	RPSFT	Legacy Investors Partnerships	Continuing Investors Partnerships (1)	EPA Holdings	Total
June 30, 2020	**$ 26,918**	**$ 1,986,511**	**$ 3,224,400**	**$ —**	**$ 5,237,829**
Contributions	—	2,105	—	—	2,105
Distributions	(27,455)	(101,716)	(46,177)	—	(175,348)
IPO offering costs	—	—	(335)	—	(335)
Other exchanges	—	—	(54,806)	—	(54,806)
Net income	21,909	125,414	186,299	—	333,622
Other comprehensive income:					
Unrealized gains on available for sale debt securities	—	1,331	2,437	—	3,768
September 30, 2020	**$ 21,372**	**$ 2,013,645**	**$ 3,311,818**	**$ —**	**$ 5,346,835**

(1) Related to the Continuing Investors Partnerships' ownership as of September 30, 2020 of approximately 39% of RP Holdings through their ownership of the RP Holdings Class B Interests. Royalty Pharma plc owns the remaining 61% of RP Holdings through its ownership of RP Holdings Class A Interests and RP Holdings Class B Interests as of September 30, 2020.

	RPSFT	Legacy Investors Partnerships	Continuing Investors Partnerships (1)	EPA Holdings	Total
December 31, 2019	**$ 35,883**	**$ —**	**$ —**	**$ —**	**$ 35,883**
Contributions	—	1,142,424	—	—	1,142,424
Transfer of interests	—	1,037,161	—	—	1,037,161
Distributions	(81,971)	(423,476)	(46,177)	—	(551,624)
Net income prior to IPO	42,151	102,892	—	—	145,043
Effect of exchange by Continuing Investors of Class B shares for Class A ordinary shares and reallocation of historical equity	—	(750)	2,433,848	—	2,433,098
Issuance of Class A ordinary shares sold in IPO, net of offering costs	—	—	758,255	—	758,255
Other exchanges	—	—	(54,806)	—	(54,806)
Net income subsequent to IPO	25,309	143,170	217,858	—	386,337
Other comprehensive income:					
Unrealized gains on available for sale debt securities	—	12,224	2,840	—	15,064
September 30, 2020	**$ 21,372**	**$ 2,013,645**	**$ 3,311,818**	**$ —**	**$ 5,346,835**

(1) Related to the Continuing Investors Partnerships' ownership as of September 30, 2020 of approximately 39% of RP Holdings through their ownership of the RP Holdings Class B Interests. Royalty Pharma plc owns the remaining 61% of RP Holdings through its ownership of RP Holdings Class A Interests and RP Holdings Class B Interests as of September 30, 2020.

RP Holdings Class C Special Interest held by EPA Holdings

EPA Holdings is entitled to Equity Performance Awards (as defined below) through its RP Holdings Class C Special Interest based on our performance, as determined on a portfolio-by-portfolio basis. Investments made during each two-year period will be grouped together as separate portfolios (each, a "Portfolio"). Subject to certain conditions, at the end of each fiscal quarter, EPA Holdings is entitled to a distribution from RP Holdings in respect of each Portfolio equal to 20% of the Net Economic Profit (defined as the aggregate cash receipts for all new portfolio investments in such Portfolio less Total Expenses (defined as interest expense, operating expense and recovery of acquisition cost in respect of such Portfolio)) for such Portfolio for the applicable measuring period (the "Equity Performance Awards"). The Equity Performance Awards will be allocated and paid by RP Holdings to EPA Holdings as the holder of the RP Holdings Class C Special Interest. The Equity Performance Awards will be payable in RP Holdings Class B Interests for which we will issue the same number of Class B ordinary shares, which may be subsequently exchanged for our Class A ordinary shares. We do not currently expect any material Equity Performance Awards to be payable until the mid 2020s.

Dividends

The holders of Class A ordinary shares are entitled to receive dividends subject to approval by the board of directors. The holders of Class B ordinary shares do not have any rights to receive dividends; however, the RP Holdings Class B Interests are entitled to dividends and distributions from RP Holdings. In the nine months ended September 30, 2021, we declared and paid three quarterly cash dividends of $0.17 per Class A ordinary share for an aggregate amount of $211.6 million to holders of our Class A ordinary shares.

2020 Independent Directors Equity Incentive Plan

On June 15, 2020, our 2020 Independent Director Equity Incentive Plan was approved and became effective, whereby 800 thousand Class A ordinary shares have been reserved for future issuance to our independent directors.

RSU activity and share-based compensation

We grant RSUs to independent directors under the 2020 Independent Director Equity Incentive Plan. Share-based compensation expense is recognized based on estimated fair value of the award on the grant date and amortized on a straight-line basis over the requisite service period of generally one year as part of *General and administrative expenses* in the condensed consolidated statement of comprehensive income. We recognized share-based compensation expense of approximately $0.7 million and $2.4 million for the three and nine months ended September 30, 2021, respectively. We recognized share-based compensation expense of approximately $1.0 million and $4.7 million in three and nine months ended September 30, 2020. There were no share-based awards or related expenses in periods prior to the IPO.

13. Earnings per Share

Basic earnings per share ("EPS") is computed by dividing net income attributable to us by the weighted average number of Class A ordinary shares outstanding during the period. Diluted EPS is computed by dividing net income attributable to us, including the impact of potentially dilutive securities, by the weighted average number of Class A ordinary shares outstanding during the period, including the number of Class A ordinary shares that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include the outstanding Class B ordinary shares, Class B ordinary shares contingently issuable to EPA Holdings related to Equity Performance Awards and unvested RSUs issued under our Equity Incentive Plan. We use the "if-converted" method to determine the potentially dilutive effect of our outstanding Class B ordinary shares, and the treasury stock method to determine the potentially dilutive effect of the unvested RSUs.

Our Class B ordinary shares, Class R redeemable shares and deferred shares do not share in the earnings or losses attributable to us and are therefore not participating securities. As such, separate presentation of basic and diluted earnings per share for Class B ordinary shares, Class R redeemable shares and deferred shares under the two-class method has not been presented. Our Class B ordinary shares are, however, considered potentially dilutive shares of Class A ordinary shares because shares of Class B ordinary shares, together with the related RP Holdings Class B Interests, are exchangeable into Class A ordinary shares on a one-for-one basis. For the three and nine months ended September 30, 2021 and 2020, Class B ordinary shares contingently issuable to EPA Holdings were evaluated and were determined not to have any dilutive impact.

The following table sets forth reconciliations of the numerators and denominators used to compute basic and diluted earnings per Class A ordinary share for the three and nine months ended September 30, 2021 (in thousands, except per share amounts).

	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2021
Numerator		
Consolidated net income	$ 221,796	$ 1,187,530
Less: Net income attributable to Continuing Investors Partnerships	42,592	294,098
Less: Net income attributable to non-controlling interest - Legacy Investors Partnerships and RPSFT	77,275	281,608
Net income attributable to Royalty Pharma plc - basic	101,929	611,824
Add: Reallocation of net income attributable to non-controlling interest from the assumed conversion of Class B ordinary shares	42,592	294,098
Net income attributable to Royalty Pharma plc - diluted	$ 144,521	$ 905,922
Denominator		
Weighted average Class A ordinary shares outstanding - basic	428,230	409,253
Add: Dilutive effects as shown separately below		
Class B ordinary shares exchangeable for Class A ordinary shares	178,942	197,881
Unvested RSUs	2	18
Weighted average Class A ordinary shares outstanding - diluted	607,174	607,152
Earnings per Class A ordinary share - basic	$ 0.24	$ 1.49
Earnings per Class A ordinary share - diluted	$ 0.24	$ 1.49

Prior to the IPO, our capital structure included mainly unitholder interests. We analyzed the calculation of earnings per interest for periods prior to the IPO and determined that the resultant values would not be meaningful to the users of these unaudited condensed consolidated financial statements. Therefore, the basic and diluted earnings per share for the nine months ended September 30, 2020 is only applicable for the period from June 16, 2020 to September 30, 2020, which represents the period in which we had outstanding Class A ordinary shares. Additionally, Class B ordinary shares in issue were evaluated under the if-converted method for potential dilutive effects and were determined to be anti-dilutive for the three and nine months ended September 30, 2020, and therefore were excluded from the computation of diluted earnings per shares of Class A ordinary share. As of September 30, 2020, we had 607.1 million fully diluted Class A ordinary shares outstanding.

The following table sets forth reconciliations of the numerators and denominators used to compute basic and diluted earnings per Class A ordinary share for the three and nine months ended September 30, 2020 (in thousands, except per share amounts).

	Three months ended September 30, 2020	Nine months ended September 30, 2020
Numerator		
Consolidated net income	$ 624,254	$ 1,335,326
Less: Net income attributable to Continuing Investors Partnerships prior to the IPO (1)	—	479,842
Less: Net income attributable to Continuing Investors Partnerships subsequent to the IPO	186,299	217,858
Less: Net income attributable to non-controlling interest - Legacy Investors Partnerships and RPSFT	147,323	313,522
Net income attributable to Royalty Pharma plc - basic and diluted	$ 290,632	$ 324,104
Denominator		
Weighted average Class A ordinary shares outstanding - basic	369,999	367,753
Add: Dilutive effect of unvested RSUs	3	3
Weighted average Class A ordinary shares outstanding - diluted	370,002	367,756
Earnings per Class A ordinary share - basic	$ 0.79	$ 0.88
Earnings per Class A ordinary share - diluted	$ 0.79	0.88

(1) Reflected as net income attributable to controlling interest on the condensed consolidated statements of comprehensive income.

14. Indirect Cash Flow

Adjustments to reconcile consolidated net income to net cash provided by operating activities are summarized below (in thousands).

	For the Nine Months Ended September 30,	
	2021	2020
Cash flow from operating activities:		
Consolidated net income	$ 1,187,530	$ 1,335,326
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Income from financial royalty assets	(1,538,871)	(1,435,536)
Provision for changes in expected cash flows from financial royalty assets	186,337	101,498
Amortization of intangible assets	17,200	17,262
Amortization of debt discount and issuance costs	14,822	6,869
Losses on derivative financial instruments	21,436	39,886
Losses/(gains) on equity securities	17,980	(200,955)
Equity in earnings of non-consolidated affiliates	(18,532)	(33,961)
Distributions from non-consolidated affiliates	28,213	36,041
Loss on extinguishment of debt	358	30,272
Share-based compensation	1,939	4,588
Interest income accretion	(40,545)	—
Unrealized gains on available for sale debt securities	(8,246)	—
Termination of derivative financial instruments	(16,093)	(34,952)
Other	3,263	8,163
Decrease/(increase) in operating assets:		
Cash collected on financial royalty assets	1,733,147	1,549,211
Accrued royalty receivable	(26,502)	1,153
Other royalty income receivable	(7,833)	852
Other current assets and other assets	(473)	31,835
(Decrease)/increase in operating liabilities:		
Accounts payable and accrued expenses	(2,138)	11,404
Interest payable	(25,413)	—
Net cash provided by operating activities	**$ 1,527,579**	**$ 1,468,956**

Non-cash investing and financing activities are summarized below (in thousands).

	For the Nine Months Ended September 30,	
	2021	2020
Supplemental schedule of non-cash investing / financing activities:		
Receipt of contribution of investment in Legacy Investors Partnerships (Note 9)	$ —	$ 303,679
Settlement of Epizyme forward purchase contract	—	5,700
Accrued purchase obligation - Tazverik (Note 17)	—	220,000
Repayments of long-term debt by contributions from non-controlling interest (1)	—	1,103,774
Accrued capitalized offering costs (2)	—	1,177

(1) Related to the pro rata portion of RPIFT's outstanding debt repaid by the Legacy Investors Partnerships.
(2) Related to capitalized offering costs incurred in connection with our IPO that were not paid as of September 30, 2020.

15. Accumulated Other Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income/(loss). We include *Unrealized losses/(gains) on available for sale debt securities* related to the Series A Biohaven Preferred Shares, which is the only component of accumulated other comprehensive income as of September 30, 2021 and December 31, 2020.

Changes in accumulated other comprehensive income are as follows (in thousands):

	Unrealized gains on available for sale debt securities
Balance at December 31, 2020	$ 34,395
Reclassification to net income	(22,421)
Activity for the period	4,562
Reclassification from non-controlling interest	4,017
Balance at September 30, 2021	$ 20,553

The total reclassification of unrealized gains on available for sale debt securities of $40.5 million for the nine months ended September 30, 2021 is presented in earnings within *Interest income* on the condensed consolidated statements of comprehensive income, including $22.4 million attributable to controlling interest as noted in the table above and $18.1 million attributable to the non-controlling interest.

16. Related Party Transactions

The Manager

The Manager is the investment manager of Royalty Pharma and its subsidiaries. The Manager is an affiliate of RP Ireland, the administrator of RPIFT, RPI Intermediate FT and RPSFT. The sole member of the Manager, Pablo Legorreta, holds an interest in us and serves as our Chief Executive Officer and Chairman of the board of directors, and as a director on the board of directors of RP Holdings.

In connection with the Exchange Offer Transactions (discussed in Note 1–Organization and Purpose), the Manager entered into Management Agreements with us and our subsidiaries, the Continuing Investors Partnerships, and with the Legacy Investors Partnerships. Pursuant to the Management Agreements, we pay quarterly operating and personnel expenses to the Manager or its affiliates ("Operating and Personnel Payments") equal to 6.5% of the Adjusted Cash Receipts (both, as defined in the Management Agreement) for such quarter and 0.25% of the GAAP value of our security investments as of the end of such quarter. The operating and personnel payments for Old RPI, an obligation of the Legacy Investors Partnerships as a non-controlling interest in Old RPI and for which the expense is reflected in our income statement, is calculated as the greater of $1 million per quarter and 0.3125% of Royalty Investments (as defined in the limited partnership agreements of the Legacy Investor Partnerships) during the previous twelve calendar months. During the three and nine months ended September 30, 2021, total operating and personnel payments incurred were $39.9 million and $108.0 million, respectively, including the amount attributable to Old RPI, and are recognized within *General and administrative expenses* on the condensed consolidated statements of comprehensive income.

Prior to the Exchange Date, the Manager received operating and personnel payments payable in equal quarterly installments that increased by 5% annually on a compounded basis under the terms of its management agreement with Old RPI and the Legacy Investors Partnerships. RP Ireland receives an annual management fee payable in advance by Old RPI in equal quarterly installments under terms of the limited partnership agreements of the Legacy Investors Partnerships. After the Exchange Date, operating and personnel payments were calculated in accordance with the methodology discussed in the paragraph above. During the three and nine months ended September 30, 2020, total operating and personnel payments incurred were $30.6 million and $77.9 million, respectively, and were recognized within *General and administrative expenses* on the condensed consolidated statements of comprehensive income.

Distribution Payable to Non-Controlling Interest

The distribution payable to non-controlling interest represents the contractual cash flows required to be distributed based on the Legacy Investors Partnerships' non-controlling interest in Old RPI and RPSFT's non-controlling interest in RPCT. The distribution payable to non-controlling interest as of September 30, 2021 and December 31, 2020 included the following (in thousands).

	As of September 30, 2021	As of December 31, 2020
Due to Legacy Investors Partnerships	$ 102,696	$ 100,047
Due to RPSFT	16,439	26,319
Total distribution payable to non-controlling interest	$ 119,135	$ 126,366

Acquisition from Epizyme

In November 2019, in connection with an equity investment in Epizyme of $100.0 million made by RPIFT, Pablo Legorreta, our Chief Executive Officer, was appointed as a director of Epizyme, for which he received, and continues to receive, compensation in cash and shares of Epizyme, all of which will be contributed to the Manager, and used to reduce costs and expenses which would otherwise be billed to us or our affiliates.

Acquisition from Bristol Myers Squibb

In November 2017, RPI Acquisitions entered into a purchase agreement with Bristol Myers Squibb ("BMS") to acquire from BMS a percentage of its future royalties on worldwide sales of Onglyza, Farxiga, and related diabetes products marketed by AstraZeneca (the "Purchase Agreement"). We agreed to make payments to BMS based on sales of the products over eight quarters beginning with the first quarter of 2018 in exchange for a high single-digit royalty on worldwide sales of the products from 2020 through 2025.

On December 8, 2017, RPI Acquisitions entered into a purchase, sale and assignment agreement ("Assignment Agreement") with a wholly owned subsidiary of BioPharma Credit PLC ("BPCR"), an affiliate of us. We considered BPCR as a related party due to the sole member of the Manager having significant influence over BPCR's investment manager. Under the terms of the Assignment Agreement, RPI Acquisitions assigned the benefit of 50% of the payment stream acquired from BMS to BPCR in consideration for BPCR meeting 50% of the funding obligations owed to BMS under the Purchase Agreement.

We began making installment payments to BMS in 2018 and completed our funding requirement, net of the assigned funding obligations, totaling $162.4 million in the three months ended March 31, 2020. During the three months ended March 31, 2020, installment payments made to BMS totaled $24.3 million, of which RPI Acquisitions funded $12.1 million. We began to measure this financial royalty asset using the effective interest method once our installment funding obligation was completed and we received our first royalty payment in the three months ended June 30, 2020. As of September 30, 2021 and December 31, 2020, the financial royalty asset of $136.0 million and $150.6 million, respectively, included in *Financial royalty assets, net* on the condensed consolidated balance sheets represents only our right to the future payment streams acquired from BMS.

Other transactions

Henry Fernandez, the lead independent director of our board of directors, serves as the chairman and chief executive officer of MSCI Inc. ("MSCI"). On April 16, 2021, we entered into an agreement with MSCI with an initial term of seven years to assist MSCI in the design of a classification framework and index methodologies in order to expand MSCI's thematic index suite with the launch of new indexes. In return, we will receive a percentage of MSCI's revenues from those indexes. No amounts were due from MSCI as of both September 30, 2021 and December 31, 2020. We do not expect the financial statement impact associated with this transaction to be material for the year ended December 31, 2021.

In connection with the Exchange Offer Transactions, we acquired the Legacy SLP Interest from the Continuing Investors Partnerships in exchange for issuing shares in our subsidiary. As a result, we became a special limited partner in the Legacy Investors Partnerships. The Legacy Investors Partnerships own a non-controlling interest in Old RPI. Refer to Note 9–Non-Consolidated Affiliates for additional discussion.

In the nine months ended September 30, 2020, the Company reimbursed Pablo Legorreta, Royalty Pharma's Chief Executive Officer, approximately $1.0 million for the cost of purchasing and donating ventilators to hospitals on behalf of Royalty Pharma.

RPIFT owns 27,210 limited partnership interests in the Continuing Investors Partnership whose only substantive operations are their investment in our subsidiaries. The total investment of $4.3 million is recorded as treasury interests, of which $1.6 million and $1.9 million are held by non-controlling interest as of September 30, 2021 and December 31, 2020, respectively.

Based on its ownership percentage of RP Holdings relative to the Company, each Continuing Investor Partnership pays a pro rata portion of any costs and expenses in connection with the contemplation of, formation of, listing and ongoing operation of us and any of our subsidiaries, including any third-party expenses of managing us and any of our subsidiaries, such as accounting, audit, legal, reporting, compliance, administration (including directors' fees), financial advisory, consulting, investor relations and insurance expenses relating to our affairs and those of any subsidiary.

17. Commitments and Contingencies

In the ordinary course of its business, we may enter into contracts or agreements that contain customary indemnifications relating to such things as confidentiality agreements and representations as to corporate existence and authority to enter into contracts. The maximum exposure under such agreements is indeterminable until a claim, if any, is made. However, no such claims have been made against us to date and we believe that the likelihood of such proceedings taking place in the future is remote.

On June 2, 2021, we announced a long-term strategic funding partnership of up to $2.025 billion with MorphoSys to support MorphoSys' acquisition of Constellation, which closed on July 15, 2021. As part of the funding agreement, we agreed to make additional milestone payments of up to $150 million and provide up to $350 million of Development Funding Bonds, which MorphoSys may draw over a one-year period from the close of its acquisition of Constellation. As of September 30, 2021, MorphoSys has not drawn any amount under the Development Funding Bonds. MorphoSys is required to draw a minimum of $150 million, for which we have recognized the Development Funding Bond Forward within *Available for sale debt securities* on the condensed consolidated balance sheet as of September 30, 2021 (See Note 3–Available for Sale Debt Securities for additional discussion). Once drawn, we expect to receive a return of 2.2 times the amount funded on the Development Funding Bonds payable on a quarterly basis over nine years, with the first payment beginning two years after the funding.

On August 7, 2020, we entered into a funding agreement with Biohaven, including the Series B Biohaven Preferred Share Agreement, for up to $450.0 million to fund the development of zavegepant and the commercialization of Nurtec ODT in exchange for royalties and success-based milestones. Biohaven received $150.0 million at closing and received an additional $100.0 million in the three months ended March 31, 2021, upon the start of the oral zavegepant Phase 3 program. Pursuant to the Series B Biohaven Preferred Share Agreement, we agreed to provide further support for the ongoing launch of Nurtec ODT with the purchase of committed, non-contingent Commercial Launch Preferred Equity for a total of $200.0 million payable on a quarterly basis between March 31, 2021 and December 31, 2024. In return, Biohaven will be required to redeem the Series B Biohaven Preferred Shares in a series of equal fixed quarterly payments between March 31, 2025 and December 31, 2030. During the three months ended March 30, 2021, we began purchasing the Series B Biohaven Preferred Shares. We have a remaining commitment of $147.2 million under the Commercial Launch Preferred Equity, for which we have recognized the Series B Forwards within *Available for sale debt securities* on the condensed consolidated balance sheet as of September 30, 2021 (See Note 3–Available for Sale Debt Securities for additional discussion).

In November 2019, RPIFT agreed to pay $330.0 million to purchase Eisai's royalties on future worldwide sales of Tazverik, a novel targeted therapy in late-stage clinical development that was approved by the FDA in January 2020 for epithelioid sarcoma, and with the potential to be approved in several cancer indications. Under the terms of our agreement with Eisai, we acquired Eisai's future worldwide royalties on net sales by Epizyme of Tazverik outside of Japan, for an upfront payment of $110.0 million plus up to an additional $220.0 million for the remainder of the royalty upon FDA approval of Tazverik for certain indications. The FDA approval of Tazverik in January 2020 triggered our obligation to fund the second $110.0 million tranche in November 2020. In June 2020, the FDA approval of additional indications of Tazverik triggered our obligation to fund the final $110.0 million tranche in November 2021, which is recorded as *Accrued purchase obligation* on the condensed consolidated balance sheet as of September 30, 2021. On November 4, 2021, we funded the final $110.0 million tranche.

We have commitments to advance funds to counterparties through our investment in the Avillion Entities and R&D arrangements. Please refer to Note 9–Non-Consolidated Affiliates and Note 10–Research & Development ("R&D") Funding Expense, respectively, for details of these arrangements. We also have requirements to make Operating and Personnel Payments over the life of the management agreement as described in Note 16–Related Party Transactions, which are variable and primarily based on cash receipts.

Legal Proceedings

We are a party to legal actions with respect to a variety of matters in the ordinary course of business. Some of these proceedings may be based on complex claims involving substantial uncertainties and unascertainable damages. Unless otherwise noted, it is not possible to determine the probability of loss or estimate damages, and therefore we have not established accruals for any of these proceedings in our condensed consolidated balance sheets as of September 30, 2021 and December 31, 2020. When we determine that a loss is both probable and reasonably estimable, we record a liability, and, if the liability is material, we disclose the amount of the liability reserved. We do not believe the outcome of any existing legal proceedings to which we are a party, either individually or in the aggregate, will adversely affect our business, financial condition or results of operations.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand our results of operations and financial condition, cash flows and other changes in financial condition. MD&A is provided as a supplement to, and should be read in conjunction with, our audited consolidated financial statements and the accompanying notes to our consolidated financial statements included in our Annual Report on Form 10-K. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in Special Note Regarding Forward-Looking Statements included elsewhere in this Quarterly Report on Form 10-Q and in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K.

Royalty Pharma plc is an English public limited company incorporated under the laws of England and Wales that was created for the purpose of consolidating our predecessor entities and facilitating the initial public offering ("IPO") of our Class A ordinary shares that was completed in June 2020. "Royalty Pharma," the "Company," "we," "us" and "our" refer to Royalty Pharma plc and its subsidiaries on a consolidated basis. After the consummation of the Exchange Offer Transactions (as defined below) and execution of the Management Agreement (as defined below) (collectively, the "Reorganization Transactions") in February 2020 and before the consummation of the IPO, "Royalty Pharma," the "Company," "we," "us" and "our" refer to Royalty Pharma Investments 2019 ICAV ("RPI 2019 ICAV"). Prior to the Reorganization Transactions, "Royalty Pharma," the "Company," "we," "us" and "our" refer to Royalty Pharma Investments, an Irish unit trust ("Old RPI").

Business Overview

We are the largest buyer of biopharmaceutical royalties and a leading funder of innovation across the biopharmaceutical industry. Since our founding in 1996, we have been pioneers in the royalty market, collaborating with innovators from academic institutions, research hospitals and not-for-profits through small and mid-cap biotechnology companies to leading global pharmaceutical companies. We have assembled a portfolio of royalties which entitles us to payments based directly on the top-line sales of many of the industry's leading therapies, which includes royalties on more than 45 commercial products, including AbbVie and Johnson & Johnson's Imbruvica, Astellas and Pfizer's Xtandi, Biogen's Tysabri, Gilead's Trodelvy, Merck's Januvia, Novartis' Promacta, Vertex's Kalydeco, Orkambi, Symdeko/Symkevi and Trikafta/Kaftrio, and nine development-stage product candidates. We fund innovation in the biopharmaceutical industry both directly and indirectly - directly when we partner with companies to co-fund late-stage clinical trials and new product launches in exchange for future royalties, and indirectly when we acquire existing royalties from the original innovators.

Our capital-efficient business model enables us to benefit from many of the most attractive characteristics of the biopharmaceutical industry, including long product life cycles, significant barriers to entry and noncyclical revenues, but with substantially reduced exposure to many common industry challenges such as early stage development risk, therapeutic area constraints, high research and development costs, and high fixed manufacturing and marketing costs. We have a highly flexible approach that is agnostic to both therapeutic area and treatment modality, allowing us to acquire royalties on the most attractive therapies across the biopharmaceutical industry.

We classify our royalty acquisitions by the approval status of the therapy at the time of acquisition:

- **Approved Products** – We acquire royalties in approved products that generate predictable cash flows and may offer upside potential from unapproved indications. Since inception in 1996 through 2020, we have deployed $13.2 billion of cash to acquire royalties on approved products. From 2012 through 2020, we have acquired $8.4 billion of royalties on approved products.

- **Development-Stage Product Candidates** – We acquire royalties on development-stage product candidates that have demonstrated strong clinical proof of concept. From 2012, when we began acquiring royalties on development-stage product candidates, through 2020, we have deployed $7.0 billion to acquire royalties on development-stage product candidates.

While we classify our acquisitions in these two broad categories, several of our acquisitions of royalties on approved products were driven by the long-term potential of these products in other, unapproved indications. Similarly, some of our royalty acquisitions in development-stage product candidates are for products that are approved in other indications.

We acquire product royalties in a variety of ways that can be tailored to the needs of our partners. We classify our product royalty acquisitions according to the following structures:

- **Third-party Royalties** – A royalty is the contractual right to a percentage of top-line sales from a licensee's use of a product, technology or intellectual property. The majority of our current portfolio consists of third-party royalties.

- **Synthetic / Hybrid Royalties** – A synthetic royalty is the contractual right to a percentage of top-line sales created by the developer and/or marketer of a therapy in exchange for funding. In many of our synthetic royalties, we also make investments in the public equity of the company, where the main value driver of the company is the product on which we concurrently acquired a royalty.

- **Research & Development ("R&D") Funding** – We fund R&D, typically for large biopharmaceutical companies, in exchange for future royalties and/or milestones if the product or indication we are funding is approved.

- **Mergers and Acquisitions ("M&A")** – We acquire royalties in connection with M&A transactions, often from the buyers of biopharmaceutical companies when they dispose of the non-strategic assets of the target company following the closing of the acquisition. We also seek to partner with companies to acquire other biopharmaceutical companies that own significant royalties. We may also seek to acquire biopharmaceutical companies that have significant royalties or where we can create royalties in subsequent transactions.

Background and Format of Presentation

In connection with our IPO, we consummated an exchange offer on February 11, 2020 (the "Exchange Date"). Through the exchange offer, investors representing 82% of the aggregate limited partnership in the various partnerships owned by Old RPI (the "Legacy Investors Partnerships"), exchanged their limited partnership interests in the Legacy Investors Partnerships for limited partnership interests in RPI US Partners 2019, LP, a Delaware limited partnership or RPI International Holdings 2019, LP, a Cayman Islands exempted limited partnership (together, the "Continuing Investors Partnerships"). The exchange offer transaction together with (i) the concurrent incurrence of indebtedness under a new credit facility and (ii) the issuance of additional interests in Continuing Investors Partnerships to satisfy performance payments payable in respect of assets acquired prior to the date of the IPO are referred to as the "Exchange Offer Transactions."

Following our IPO, we operate and control the business affairs of Royalty Pharma Holdings Ltd, ("RP Holdings") through our controlling ownership of RP Holdings' Class A ordinary shares (the "RP Holdings Class A Interests") and RP Holdings' Class B ordinary shares (the "RP Holdings Class B Interests"). We include RP Holdings and its subsidiaries in our consolidated financial statements. RP Holdings is the sole owner of RPI 2019 ICAV, which is an Irish collective asset management entity formed to facilitate our Exchange Offer Transactions.

As a result of the Exchange Offer Transactions, we own, through our subsidiary RPI 2019 Intermediate Finance Trust, a Delaware statutory trust ("RPI Intermediate FT"), an 82% economic interest in Old RPI. Through our 82% indirect ownership of Old RPI, we are legally entitled to 82% of the economics of Old RPI's wholly-owned subsidiaries, RPI Finance Trust, a Delaware statutory trust ("RPIFT") and RPI Acquisitions (Ireland), Limited ("RPI Acquisitions"), an Irish private limited company, and 66% of Royalty Pharma Collection Trust, a Delaware statutory trust ("RPCT").

The remaining 34% of RPCT is owned by the Legacy Investors Partnerships and Royalty Pharma Select Finance Trust, a Delaware statutory trust ("RPSFT"), which is wholly owned by Royalty Pharma Select, an Irish unit trust. From the Exchange Date until the expiration of the Legacy Investors Partnerships' investment period on June 30, 2020 (the "Legacy Date"), the Legacy Investors Partnerships had the option to participate proportionately in any investment made by Old RPI. Following the Legacy Date, Old RPI ceased making new investments and each of Old RPI and the Legacy Investors Partnerships became legacy entities. Following the Legacy Date, we have made and plan to make new investments solely through our subsidiaries, including RPI Intermediate FT.

Following management's determination that a high degree of common ownership exists in Royalty Pharma both before and after the Exchange Date, Royalty Pharma recognized Old RPI's assets and liabilities at the carrying value reflected on Old RPI's balance sheet as of the Exchange Date. Old RPI is our predecessor for financial reporting purposes. The results of operations in the following discussion is comprised of the financial results of Old RPI prior to the Reorganization Transactions, RPI 2019 ICAV subsequent to the Reorganization Transactions and before the consummation of the IPO, and Royalty Pharma plc subsequent to the consummation of the IPO.

Understanding Our Financial Reporting

In accordance with generally accepted accounting principles in the United States ("GAAP"), most of the royalties we acquire are treated as investments in cash flow streams and are thus classified as financial assets. These investments have yield components that most closely resemble loans measured at amortized cost under the effective interest accounting methodology. Under this accounting methodology, we calculate the effective interest rate on each financial royalty asset using a forecast of the expected cash flows to be received over the life of the financial royalty asset relative to the initial acquisition price. The yield, which is calculated at the end of each reporting period and applied prospectively, is then recognized via accretion into our income at the effective rate of return over the expected life of the financial royalty asset.

The preparation of our financial statements in this manner requires the use of estimates, judgments and assumptions that affect both our reported assets and liabilities and our income and revenue and expenses. The most significant judgments and estimates applied by management are associated with the measurement of income derived from our financial royalty assets, including management's judgment in forecasting the expected future cash flows of the underlying royalties and the expected duration of the financial royalty asset. Our cash flow forecasts are generated and updated each reporting period by manually compiling sell-side equity research analysts' consensus estimates for each of the products in which we own royalties. We then calculate our expected royalty cash flows using these consensus forecasts. In any given reporting period, any decline in the expected future cash flows associated with a financial royalty asset is recognized as a provision which is expensed through our income statement as a non-cash charge.

As a result of the non-cash charges associated with applying the effective interest method accounting methodology, our income statement activity in respect of many of our royalties can be volatile and unpredictable. Small declines in sell-side equity research analysts' consensus forecasts over a long time horizon can result in an immediate non-cash income statement expense recognition, even though the applicable cash inflows will not be realized for many years into the future. For example, in late 2014 we acquired the cystic fibrosis franchise royalty, which is classified as a financial royalty asset. Beginning in the second quarter of 2015, declines in near-term sales forecasts of sell-side equity research analysts caused us to recognize non-cash provision expenses to the income statement and build up a corresponding cumulative allowance which reduced the gross balance for this financial royalty asset. Over the course of 10 quarters, we recognized non-cash provision expenses as a result of these changes in forecasts including non-cash provision expense of $743.2 million in 2016, ultimately reaching a peak cumulative allowance of $1.30 billion by September 30, 2017 related to this financial royalty asset. With the approval of the Vertex triple combination therapy, Trikafta, in October 2019, sell-side equity research analysts' consensus forecasts increased to reflect the larger addressable market and the increase in the expected duration of the Trikafta royalty. While small reductions in the cumulative allowance for the cystic fibrosis franchise were recognized as provision income in 2017 and 2018, there remained a $1.10 billion cumulative allowance that was fully reduced by $1.10 billion in 2019 as a result of an increase in sell-side equity research analysts' consensus forecasts associated with the Trikafta approval. This example illustrates the volatility caused by our accounting model. Therefore, management believes investors should not look to income from royalties and the associated provision for changes in future cash flows as a measure of our near-term financial performance or as a source for predicting future income or growth trends.

Our operations have historically been financed primarily with cash flows generated by our royalties. Due to the nature of our accounting methodology for our financial royalty assets, there is no direct correlation between our income from royalties and our royalty receipts. As noted above, income from such royalties is measured at amortized cost under the effective interest method accounting methodology. Given the importance of cash flows to management's operation of the business and their predictability, management uses royalty receipts as the primary measure of our operating performance. Royalty receipts refer to the summation of the following line items from our GAAP Statement of Cash Flows: *Cash collections from financial royalty assets*, *Cash collections from intangible royalty assets*, *Other royalty cash collections*, *Proceeds from available for sale debt securities*, and *Distributions from non-consolidated affiliates*.

In addition to analyzing our results on a GAAP basis, management also reviews our results on a non-GAAP basis. The closest comparable GAAP measure to each of the non-GAAP measures that management review is *Net cash provided by operating activities*. The key non-GAAP metrics we focus on are Adjusted Cash Receipts, Adjusted EBITDA and Adjusted Cash Flow, each of which is further discussed in the section titled "Non-GAAP Financial Results."

Adjusted Cash Receipts and Adjusted Cash Flow are used by management as key liquidity measures in the evaluation of our ability to generate cash from operations. Both measures are an indication of the strength of the Company and the performance of the business. Management uses Adjusted Cash Flow to compare its performance against non-GAAP adjusted net income used by companies in the biopharmaceutical industry. Adjusted EBITDA, which is derived from Adjusted Cash Receipts, is used by our lenders to assess our ability to meet our financial covenants.

Refer to the section titled "Non-GAAP Reconciliations" for additional discussion of management's use of non-GAAP measures as supplemental financial measures.

Portfolio Overview

Our portfolio consists of royalties on more than 45 marketed therapies and nine development-stage product candidates. The therapies in our portfolio address therapeutic areas such as rare disease, cancer, neurology, infectious disease, hematology and diabetes, and are delivered to patients across both primary and specialty care settings. The table below includes royalty cash receipts for the three and nine months ended September 30, 2021 and 2020 in order of contribution to income for the nine months ended September 30, 2021.

(in thousands)			Three Months Ended September 30,		Nine Months Ended September 30,	
	Marketer	**Therapeutic area**	**2021**	**2020**	**2021**	**2020**
Products						
Cystic fibrosis franchise (1)	Vertex	Rare disease	$ 182,876	$ 156,952	$ 505,708	$ 392,474
Tysabri	Biogen	Neurology	95,805	76,617	274,796	252,941
Imbruvica	AbbVie/Johnson & Johnson	Cancer	87,924	77,816	264,348	237,038
Promacta	Novartis	Hematology	48,151	39,734	124,617	102,135
Xtandi	Pfizer, Astellas	Cancer	40,237	38,498	117,049	107,406
Januvia, Janumet, Other DPP-IVs (2)	Merck, others	Diabetes	37,934	34,485	113,133	104,132
HIV franchise (3)	Gilead, others	Infectious disease	1,858	66,869	76,981	215,448
Nurtec ODT/Biohaven payment (4)	Biohaven	Neurology	17,948	227	51,170	227
Prevymis	Merck	Infectious disease	9,929	6,786	27,331	13,199
Farxiga/Onglyza	AstraZeneca	Diabetes	9,321	8,290	26,996	16,547
Cabometyx/Cometriq	Exelixis, Ipsen, Takeda	Cancer	12,038	—	22,167	—
Tremfya	Johnson & Johnson	Immunology	16,610	—	16,610	—
Crysvita	Ultragenyx, Kyowa Kirin	Rare disease	4,576	3,384	12,092	6,004
Emgality	Lilly	Neurology	4,542	2,598	11,356	6,811
Evrysdi	Roche	Rare disease	5,897	—	10,546	—
Erleada	Johnson & Johnson	Cancer	3,736	2,104	9,957	5,314
IDHIFA	Bristol Myers Squibb	Cancer	3,079	3,282	8,568	3,282
Trodelvy	Gilead	Cancer	2,521	833	8,118	833
Orladeyo	BioCryst	Rare disease	2,502	—	3,471	—
Tazverik	Epizyme	Cancer	958	166	2,165	262
Other products (5)			123,761	69,819	262,181	253,028
Total royalty receipts			**$ 712,203**	**$ 588,460**	**$ 1,949,360**	**$ 1,717,081**

(1) The cystic fibrosis franchise includes the following approved products: Kalydeco, Orkambi, Symdeko/Symkevi, and Trikafta/Kaftrio.
(2) Januvia, Janumet, Other DPP-IVs include the following approved products: Tradjenta, Onglyza, Kombiglyze, Galvus, Eucreas and Nesina. The Other DPP-IVs are marketed by Boehringer Ingelheim, AstraZeneca, Novartis and Takeda.
(3) The HIV franchise includes the following approved products: Atripla, Truvada, Emtriva, Complera, Stribild, Genvoya, Descovy, Odefsey, Symtuza and Biktarvy. Royalties are received on the emtricitabine portion of sales only.
(4) Includes royalty receipts for Nurtec ODT of $2.3 million and $4.3 million for the three and nine months ended September 30, 2021, respectively, and quarterly redemptions of $15.6 million of the Series A Biohaven Preferred Shares (presented as *Proceeds from available for sale debt securities* on the Statement of Cash Flows) in 2021.
(5) Other products primarily include royalties on the following products: Bosulif (a product co-developed by our joint venture investee, Avillion, for which receipts are presented as *Distributions from non-consolidated affiliates* on the Statement of Cash Flows), Letairis, Lyrica, Cimzia, Entyvio, Lexiscan, Mircera, Myozyme, Nesina, Soliqua and a one-time $21.3 million distribution from Avillion in respect of the Merck KGaA Asset (defined below) in the three months ended June 30, 2020, for which the receipt is presented as *Distributions received from non-consolidated affiliates* in both the operating and investing section of the Statement of Cash Flows. In the three months ended September 30, 2021, we collected a one-time $45.0 million milestone payment on Soliqua. Subsequent to the Exchange Offer Transactions, other products also includes contributions from the Legacy SLP Interest (defined below).

Financial Overview

Financial highlights

- Net cash provided by operating activities totaled $1.5 billion and $1.5 billion for the nine months ended September 30, 2021 and 2020, respectively. *Net cash provided by operating activities* is the closest comparable GAAP financial measure to the supplemental non-GAAP liquidity measures that follow.
- Adjusted Cash Receipts (a non-GAAP metric) totaled $1.6 billion and $1.3 billion for the nine months ended September 30, 2021 and 2020, respectively.
- Adjusted EBITDA (a non-GAAP metric) totaled $1.5 billion and $1.2 billion for the nine months ended September 30, 2021 and 2020, respectively.
- Adjusted Cash Flow (a non-GAAP metric) totaled $1.3 billion and $1.1 billion for the nine months ended September 30, 2021 and 2020, respectively.

Understanding Our Results of Operations

In connection with our IPO, Royalty Pharma plc became a holding company whose principal asset is a controlling equity interest in RP Holdings, which is the sole equity owner of RPI 2019 ICAV, an entity that is included in our condensed consolidated financial statements. We report non-controlling interest related to four minority interests in our subsidiaries held by third parties.

1. The first minority interest is attributable to the Legacy Investors Partnerships' 18% ownership interest in Old RPI. The value of this non-controlling interest will decline over time as the assets in Old RPI expire.

2. The second minority interest is attributable to the RP Holdings' Class C ordinary share (the "RP Holdings Class C Special Interest") held by RPI EPA Holdings, LP ("EPA Holdings"), an affiliate of the Manager. Income will not be allocated to this non-controlling interest until certain conditions are met, which we do not expect to occur for several years.

3. The third minority interest is attributable to the RP Holdings Class B Interests held indirectly by the Continuing Investors Partnerships, which represent an approximate 29% ownership interest in RP Holdings as of September 30, 2021 and are exchangeable for our Class A ordinary shares. The value of this non-controlling interest will decline over time if the investors who indirectly own the RP Holdings Class B Interests exchange those shares for our Class A ordinary shares. During the three and nine months ended September 30, 2021, 2,503 thousand and 41,313 thousand RP Holdings Class B Interests were exchanged for our Class A ordinary shares, respectively.

4. The fourth minority interest is attributable to a de minimis interest in RPCT held by RPSFT as a result of a 2011 reorganization transaction. The value of this non-controlling interest will decline over time as the assets in RPCT expire and is expected to be substantially eliminated by the end of 2022.

The fourth non-controlling interest related to ownership in RPCT held by RPSFT, is the only non-controlling interest that existed prior to the Exchange Offer Transactions. The non-controlling interest related to the Legacy Investors Partnerships' 18% ownership interest in Old RPI is reflected in our financial statements from and after the Exchange Date. The other two non-controlling interests are reflected in our financial statements from and after the date of our IPO. All of the results of operations of RP Holdings, Old RPI and RPCT are consolidated into our financial statements.

Following the IPO, EPA Holdings is entitled to receive Equity Performance Awards through its RP Holdings Class C Special Interest. Equity Performance Awards owed to EPA Holdings will be recognized as an equity transaction when the obligation becomes due and will impact the income allocated to non-controlling interest related to the RP Holdings Class C Special Interest at that time. We do not currently expect any material Equity Performance Awards to be payable until the mid-2020s.

Total income and other revenues

Total income and other revenues is primarily comprised of income from our financial royalty assets, royalty revenue from our intangible royalty assets, and royalty income arising from successful commercialization of products developed through joint R&D funding arrangements. Most of our royalties on both approved products and development-stage product candidates are classified as financial assets as our ownership rights are generally passive in nature. In instances in which we acquire a royalty asset that does include more substantial rights or ownership of the underlying intellectual property, we classify such royalty assets as intangible assets.

We recognize interest income related to our financial royalty assets. Royalty revenue relates solely to revenue from our DPP-IV patent estate for which the patent rights have been licensed to various counterparties. For the three and nine months ended September 30, 2021 and 2020, the royalty payors accounting for 10% or more of our total income and other revenues in any one period are shown in the table below:

		Three Months Ended September 30,		Nine Months Ended September 30,	
Royalty payor	**Royalty asset**	**2021**	**2020**	**2021**	**2020**
Vertex	Cystic fibrosis franchise	33 %	27 %	33 %	28 %
AbbVie	Imbruvica	16 %	19 %	17 %	19 %
Gilead	HIV franchise, Letairis, Lexiscan, Trodelvy (1)	*	14 %	*	15 %
Biogen	Tysabri	*	10 %	*	11 %

(1) We began recognizing income related to Trodelvy in the three months ended June 30, 2020.
* Represents less than 10%.

Income from financial royalty assets

Our financial royalty assets represent investments in cash flow streams with yield components that most closely resemble loans measured at amortized cost under the effective interest method. We calculate the effective interest rate using forecasted expected cash flows to be received over the life of the royalty asset relative to the initial acquisition price. Interest income is recognized at the effective rate of return over the expected life of the asset, which is calculated at the end of each reporting period and applied prospectively. As changes in sell-side equity research analysts' consensus estimates are updated on a quarterly basis, the effective rate of return changes. For example, if sell-side equity research analysts' consensus forecasts increase, the yield to derive income on a financial royalty asset will increase and result in higher income for subsequent periods.

Variables affecting the recognition of interest income from financial royalty assets on individual products under the prospective effective interest method include any one of the following: (1) additional acquisitions, (2) changes in expected cash flows of the underlying pharmaceutical products, derived primarily from sell-side equity research analysts' consensus forecasts, (3) regulatory approval of additional indications which leads to new cash flow streams, (4) changes to the estimated duration of the royalty (i.e., patent expiration date) and (5) amounts and timing of royalty receipts. Our financial royalty assets are directly linked to sales of underlying pharmaceutical products whose life cycle typically peaks at a point in time, followed frequently by declining sales trends due to the entry of generic competition, resulting in natural declines in the asset balance and periodic interest income over the life of our royalties. The recognition of interest income from royalties requires management to make estimates and assumptions around many factors, including those impacting the variables noted above.

Revenue from intangible royalty assets

Revenue from intangible royalty assets is derived from our Januvia, Janumet and other DPP-IV patents classified as intangible royalty assets.

Other royalty income

Other royalty income primarily includes income from former royalties for which the asset balances have been fully amortized and royalty income from synthetic royalties arising out of R&D funding arrangements. Occasionally, a royalty asset may be amortized on an accelerated basis due to collectability concerns, which, if resolved, may result in future cash collections when no financial royalty asset remains. Similarly, we may continue to collect royalties on a financial royalty asset beyond the estimated patent expiration date by which the financial asset was amortized in full. In each scenario where a financial royalty asset has been fully amortized, income from such royalty is recognized as *Other royalty income*.

Provision for changes in expected cash flows from financial royalty assets

The provision for changes in expected future cash flows from financial royalty assets includes the following:

- the movement in the cumulative allowance for changes in expected future cash flows, and
- expense or income related to the provision for current expected credit losses subsequent to adoption of ASU 2016-13 on January 1, 2020.

The provision for changes in expected cash flows is the current period activity resulting from adjustments to the cumulative allowance for changes in expected cash flows, which is netted against the *Financial royalty assets, net* balance on the condensed consolidated balance sheets. As discussed above, income is accreted on our financial royalty assets using the effective interest method. As we update our forecasted cash flows on a periodic basis and recalculate the present value of the remaining future cash flows, any shortfall when compared to the carrying value of the financial royalty asset is recorded directly to the income statement through the line item *Provision for changes in expected future cash flows from financial royalty assets*. If, in a subsequent period, there is an increase in expected cash flows or if actual cash flows are significantly greater than cash flows previously expected, we reduce the cumulative allowance previously established for a financial royalty asset for the incremental increase in the present value of cash flows expected to be collected. This results in a credit to provision expense.

Most of the same variables and management's estimates affecting the recognition of interest income on our financial royalty assets also impact the provision. In any period, we will recognize provision income (i.e., a credit to the provision) or expense as a result of the following factors: (1) changes in expected cash flows of the underlying pharmaceutical products, derived primarily from sell-side equity research analysts' consensus forecasts, (2) regulatory approval of additional indications which leads to new cash flow streams, (3) changes to the estimated duration of the royalty (i.e., patent expiration date) and (4) amounts and timing of royalty receipts.

Upon the adoption on January 1, 2020 of ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), we recorded a cumulative adjustment to *Retained earnings* of $192.7 million to recognize an allowance for current expected credit losses on our portfolio of financial royalty assets. The *Provision for changes in expected cash flows from financial royalty assets* reflects the activity for the period that relates to the change in estimates applied to calculate the allowance for current expected credit losses, namely any new financial royalty assets with limited protective rights and changes in the underlying cash flow forecasts used in the effective interest model to measure income from our financial royalty assets.

R&D funding expense

R&D funding expense consists of (1) upfront R&D payments we have made to counterparties to acquire royalties on development-stage product candidates and (2) ongoing R&D expense to fund development-stage product candidates undergoing clinical trials with our partners in exchange for royalties if the products are successfully developed and commercialized. These expenditures relate to the activities performed by our counterparties to develop and test new products, to test existing products for treatment in new indications, and to ensure product efficacy and regulatory compliance prior to launch.

General and administrative expenses

General and administrative ("G&A") expenses primarily include Operating and Personnel Payments (defined below), legal expenses, other expenses for professional services and share-based compensation.

Beginning in 2020, the Operating and Personnel Payments paid to our Manager were significantly higher than they were in historical periods. Prior to the Reorganization Transactions, the operating and personnel payments were fixed, growing at 5% annually and not linked to any financial line item. Under the management agreement which is effective from the Exchange Date (the "Management Agreement"), we pay quarterly operating and personnel expenses to the Manager or its affiliates ("Operating and Personnel Payments") equal to 6.5% of the Adjusted Cash Receipts for each quarter and 0.25% of the GAAP value of our security investments as of the end of each quarter. The operating and personnel payments for Old RPI, an obligation of the Legacy Investors Partnerships as a non-controlling interest in Old RPI and for which the expense is reflected in our net income, is payable in equal quarterly installments and is calculated as the greater of $1 million per quarter and 0.3125% of royalties from Royalty Investments (as defined in the limited partnership agreements of the Legacy Investors Partnerships). The expenses incurred in respect of Operating and Personnel Payments are expected to comprise the most significant component of G&A expenses on an ongoing basis.

Equity in (earnings)/loss of non-consolidated affiliates

Legacy SLP Interest

In connection with the Exchange Offer Transactions, we acquired a new equity method investment from the Continuing Investors Partnerships in the form of a special limited partnership interest in the Legacy Investors Partnerships (the "Legacy SLP Interest") in exchange for issuing shares in our subsidiary. The Legacy SLP Interest entitles us to the equivalent of performance distribution payments that would have been paid to the general partner of the Legacy Investors Partnerships and a performance income allocation on a similar basis. The performance income allocation attributable to us is equal to the general partner's former contractual rights to the income of the Legacy Investors Partnerships.

As the Legacy Investors Partnerships no longer participates in investment opportunities, the value of the Legacy SLP Interest is expected to decline over time. Our equity method investee, the Legacy Investors Partnerships, also owns a non-controlling interest in Old RPI.

The Avillion Entities

During 2014, we entered into an agreement with our equity method investee Avillion Financing I, LP ("Avillion I") to invest up to $46.0 million over three years to fund a portion of the costs of a pivotal Phase 3 study for Pfizer's Bosulif to expand its label into front-line chronic myeloid leukemia. The U.S. Food and Drug Administration ("FDA") approved a supplemental New Drug Application ("sNDA") for Pfizer's Bosulif in December 2017, which triggered a series of contractual fixed payments from Pfizer to Avillion I over a 10-year period, which we recognize through receipt of *Distributions from non-consolidated affiliates* on the Statement of Cash Flows.

In March 2017, we entered into an agreement with BAv Financing II, LP ("Avillion II", or, together with Avillion I, the "Avillion Entities"), which was amended in 2019, to invest approximately $19.0 million to fund approximately 50% of the costs of a Phase 2 clinical trial for the use of Merck KGaA's anti-IL 17 nanobody M1095 (the "Merck KGaA Asset") for the treatment of psoriasis in exchange for certain milestone and royalty payments. Our involvement in the development for the Merck KGaA Asset ceased during the three months ended June 30, 2020 and we do not expect to record significant earnings or losses in the future related to this investment.

In 2018, we entered into an agreement with Avillion II, which was amended in July 2021, to fund up to approximately $122.5 million over multiple years to fund a portion of the costs for Phase 2 and 3 clinical trials of Avillion II, who simultaneously entered into a co-development agreement with AstraZeneca to advance PT027 (the "AZ Asset") through a global clinical development program for the treatment of asthma in exchange for royalties, a series of success-based milestones and other potential payments.

The business model of the Avillion Entities includes partnering with global biopharmaceutical companies to perform R&D in exchange for success-based milestones and/or royalties once products are commercialized.

Other (income)/expense, net

Other (income)/expense, net primarily includes the change in fair market value of our equity securities, the unrealized losses/(gains) on our available for sale debt securities, including related forwards and derivatives. Other (income)/expense, net also includes losses on extinguishment of debt and interest income.

Net income attributable to non-controlling interest

Prior to the Exchange Date, the net income attributable to non-controlling interest relates to RPSFT's 20% share of earnings in RPCT, which is a consolidated subsidiary of Old RPI. We expect net income attributable to this non-controlling interest to decline over time as the assets in RPCT expire and to be substantially eliminated by the end of 2022.

As of and following the Exchange Date, the net income attributable to non-controlling interest also includes the Legacy Investors Partnerships' approximately 18% share of earnings in Old RPI. As the Legacy Investors Partnerships no longer participate in investment opportunities, the related net income attributable to this non-controlling interest is expected to decline over time.

In periods subsequent to our IPO, this line item also includes net income attributable to the RP Holdings Class B Interests held by the Continuing Investors Partnerships, and will include net income attributable to the Class C Special Interest held by EPA Holdings once certain conditions have been met. Net income attributable to the non-controlling interest related to the RP Holdings Class B Interests held by the Continuing Investors Partnerships will decline over time if the investors who indirectly own the RP Holdings Class B Interests exchange those shares for our Class A ordinary shares.

Results of Operations

For the three and nine months ended September 30, 2021 and 2020

The comparison of our historical results of operations for the three and nine months ended September 30, 2021 and 2020 is as follows:

(in thousands)	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2021	2020	$	%	2021	2020	$	%
Income and other revenues:								
Income from financial royalty assets	$ 505,832	$ 498,515	$ 7,317	1.5 %	$ 1,538,871	$ 1,435,536	$ 103,335	7.2 %
Revenue from intangible royalty assets	63,406	34,550	28,856	83.5 %	139,594	102,978	36,616	35.6 %
Other royalty income	16,535	5,334	11,201	210.0 %	35,298	11,696	23,602	201.8 %
Total income and other revenues	585,773	538,399	47,374	8.8 %	1,713,763	1,550,210	163,553	10.6 %
Operating expenses:								
Provision for changes in expected cash flows from financial royalty assets	137,837	(33,792)	171,629	(507.9)%	186,337	101,498	84,839	83.6 %
Research and development funding expense	90,500	5,096	85,404	1,675.9 %	96,263	18,510	77,753	420.1 %
Amortization of intangible royalty assets	5,796	5,796	—	— %	17,200	17,262	(62)	(0.4)%
General and administrative expenses	48,588	50,732	(2,144)	(4.2)%	136,665	131,596	5,069	3.9 %
Total operating expenses, net	282,721	27,832	254,889	915.8 %	436,465	268,866	167,599	62.3 %
Operating income	303,052	510,567	(207,515)	(40.6)%	1,277,298	1,281,344	(4,046)	(0.3)%
Other (income)/expense								
Equity in earnings of non-consolidated affiliates	(2,749)	(13,743)	10,994	(80.0)%	(18,532)	(33,961)	15,429	(45.4)%
Interest expense	44,327	31,444	12,883	41.0 %	119,168	119,217	(49)	— %
Other expense/(income), net	39,678	(131,388)	171,066	(130.2)%	(10,868)	(139,238)	128,370	(92.2)%
Total other expense/(income), net	81,256	(113,687)	194,943	(171.5)%	89,768	(53,982)	143,750	(266.3)%
Consolidated net income	221,796	624,254	(402,458)	(64.5)%	1,187,530	1,335,326	(147,796)	(11.1)%
Net income attributable to non-controlling interest	119,867	333,622	(213,755)	(64.1)%	575,706	531,380	44,326	8.3 %
Net income attributable to controlling interest	$ 101,929	$ 290,632	$ (188,703)	(64.9)%	$ 611,824	$ 803,946	$ (192,122)	(23.9)%

Total income and revenues

Income from financial royalty assets

Income from financial royalty assets by product for our top products for the three and nine months ended September 30, 2021 and 2020 is as follows, in order of contribution to income for the nine months ended September 30, 2021:

(in thousands)	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2021	2020	$	%	2021	2020	$	%
Cystic fibrosis franchise	$ 192,832	$ 147,924	$ 44,908	30.4 %	$ 563,245	$ 436,968	$ 126,277	28.9 %
Imbruvica	94,626	99,709	(5,083)	(5.1)%	290,056	295,176	(5,120)	(1.7)%
Tysabri	54,335	56,111	(1,776)	(3.2)%	156,083	166,341	(10,258)	(6.2)%
Xtandi	28,527	26,217	2,310	8.8 %	81,245	75,453	5,792	7.7 %
HIV franchise	—	59,338	(59,338)	(100.0)%	67,802	188,840	(121,038)	(64.1)%
Tazverik	18,818	19,196	(378)	(2.0)%	56,833	35,748	21,085	59.0 %
Other	116,694	90,020	26,674	29.6 %	323,607	237,010	86,597	36.5 %
Total income from financial royalty assets	$ 505,832	$ 498,515	$ 7,317	1.5 %	$ 1,538,871	$ 1,435,536	$ 103,335	7.2 %

Three months ended September 30, 2021 and 2020

Income from financial royalty assets increased by $7.3 million, or 1.5%, in the three months ended September 30, 2021 compared to the three months ended September 30, 2020, primarily driven by the performance of the cystic fibrosis franchise, including additional interest income attributable to the residual royalty interest that we acquired in October 2020. We also recorded $26.2 million in income in the three months ended September 30, 2021 related to new assets acquired subsequent to the three months ended September 30, 2020, primarily Cabomeytx/Cometriq, Tremfya and Orladeyo. The increase in income was partially offset by the maturity of our royalties from the HIV franchise in the three months ended September 30, 2021.

Nine Months Ended September 30, 2021 and 2020

Income from financial royalty assets increased by $103.3 million, or 7.2%, in the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020, primarily driven by strong performance from the cystic fibrosis franchise. Additionally, we recorded $49.7 million of income from financial royalty assets in the nine months ended September 30, 2021 related to new assets acquired subsequent to the nine months ended September 30, 2020, primarily Cabomeytx/Cometriq, Orladeyo, Oxlumo and Tremfya. The increase in income was partially offset by declines from maturing assets, mainly the maturity of our royalties from the HIV franchise.

Revenue from intangible royalty assets

Three months ended September 30, 2021 and 2020

Revenue from intangible royalty interests increased by $28.9 million, or 83.5%, in the three months ended September 30, 2021 compared to the three months ended September 30, 2020, primarily related to the expected recovery of underpaid royalties on Tradjenta of approximately $21.7 million based on a legal judgement received in a litigation with Boehringer Ingelheim.

Nine Months Ended September 30, 2021 and 2020

Revenue from intangible royalty interests increased by $36.6 million, or 35.6%, in the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020, primarily related to the expected recovery of underpaid royalties on Tradjenta of approximately $21.7 million based on a legal judgement received in a litigation with Boehringer Ingelheim.

Other royalty income

Three months ended September 30, 2021 and 2020

Other royalty income increased by $11.2 million, or 210.0%, in the three months ended September 30, 2021 compared to the three months ended September 30, 2020, primarily related to income from Letairis and the HIV franchise, financial royalty assets that were fully amortized by June 30, 2021, but for which we still expect minimal residual royalty income. Other royalty income also includes income from Nurtec ODT and Trodelvy that arose from our R&D funding agreements with Biohaven and Immunomedics, respectively.

Nine Months Ended September 30, 2021 and 2020

Other royalty income increased by $23.6 million, or 201.8%, in the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020, primarily related to income from Trodelvy, Letairis, Nurtec ODT and the HIV franchise.

Provision for changes in expected cash flows from financial royalty assets

The breakdown of our provision for changes in expected cash flows includes the

- the movement in the cumulative allowance for changes in expected future cash flows, and
- expense or income related to the provision for current expected credit losses subsequent to the adoption of ASU 2016-13 on January 1, 2020.

As the former activity is a combination of income and expense items, the provision breakdown by product, exclusive of the provision for current expected credit losses, is as follows, based on the largest contributors to each period's income or expense:

(in thousands)	**Three Months Ended September 30,**		**Three Months Ended September 30,**
Product	**2021**	**Product**	**2020**
Tazverik	$ 115,546	Cystic fibrosis franchise	$ (98,381)
Xtandi	58,917	Xtandi	(53,142)
Cabometyx/Cometriq	12,022	Crysvita	(44,263)
Promacta	9,682	Nesina	(19,900)
Nesina	2,506	Tysabri	127,241
Other	(2,261)	Other	24,589
Total provision, exclusive of provision for credit losses	196,412	**Total provision, exclusive of provision for credit losses**	(63,856)
Provision for current expected credit losses	(58,575)	Provision for current expected credit losses	30,064
Total provision	**$ 137,837**	**Total provision**	**$ (33,792)**

(in thousands)	**Nine Months Ended September 30,**		**Nine Months Ended September 30,**
Product	**2021**	**Product**	**2020**
Tazverik	$ 176,937	Tysabri	$ 89,805
Imbruvica	107,542	Imbruvica	34,664
Emgality	54,902	Soliqua	25,977
Cabometyx/Cometriq	40,499	Xtandi	(166,361)
Tysabri	(112,720)	Nesina	(25,593)
Other	(57,480)	Other	4,259
Total provision, exclusive of provision for credit losses	209,680	**Total provision, exclusive of provision for credit losses**	(37,249)
Provision for current expected credit losses	(23,343)	Provision for current expected credit losses	138,747
Total provision	**$ 186,337**	**Total provision**	**$ 101,498**

Three months ended September 30, 2021 and 2020

In the three months ended September 30, 2021, we recorded provision expense of $137.8 million, of which $196.4 million and $58.6 million related to provision expense for changes in expected cash flows and provision income for current expected credit losses, respectively. We recorded provision expense for Tazverik and Xtandi, primarily due to significant declines in sell-side equity research analysts' consensus forecasts. During the three months ended September 30, 2021, the provision income for credit losses was driven by a significant decrease in current expected credit losses related to Tazverik as a result of the corresponding significant decline in the financial asset value.

In the three months ended September 30, 2020, we recorded provision income of $33.8 million, of which $63.9 million and $30.1 million related to provision income for changes in expected cash flows and provision expense for current expected credit losses, respectively. We recorded provision income for the cystic fibrosis franchise, Xtandi and Crysvita primarily due to increases in sell-side equity research analysts' consensus forecasts. Offsetting the provision income was provision expense recorded for Tysabri, primarily driven by declines in sell-side equity research analysts' consensus forecasts. During the three months ended September 30, 2020, the provision expense for current expected credit losses was primarily driven by increases to our portfolio of financial royalty assets, including Nurtec ODT.

Nine Months Ended September 30, 2021 and 2020

In the nine months ended September 30, 2021, we recorded provision expense of $186.3 million, of which $209.7 million and $23.3 million related to provision expense for changes in expected cash flows and provision income for current expected credit losses, respectively. We recorded provision expense for Tazverik, Imbruvica and Emgality, primarily due to declines in sell-side equity research analysts' consensus forecasts. Offsetting the provision expense was provision income from a significant increase in sell-side equity research analysts' consensus forecasts for Tysabri. During the nine months ended September 30, 2021, the provision income for credit losses was driven by a significant decrease in current expected credit losses related to Tazverik. The provision income for credit losses was partially offset by provision expense for credit losses recognized as a result of the increases to our portfolio of financial royalty assets, including the incremental $100.0 million financial royalty asset related to the start of the oral zavegepant Phase 3 program and a new royalty interest in Cabometyx/Cometriq.

In the nine months ended September 30, 2020, we recorded provision expense of $101.5 million, of which $37.2 million and $138.7 million related to provision income for changes in expected cash flows and provision expense for current expected credit losses, respectively. We recorded provision expense for Tysabri and Imbruvica, primarily due to declines in sell-side equity research analysts' consensus forecasts. Offsetting the provision expense was provision income for increases in sell-side equity research analysts' consensus forecasts for Xtandi and Nesina. During the nine months ended September 30, 2020, we recognized provision expense for current expected credit losses, primarily driven by increases to our portfolio of financial royalty assets, including the final two $110.0 million tranches of Tazverik, and Nurtec ODT.

R&D funding expense

Three months ended September 30, 2021 and 2020

R&D funding expense increased by $85.4 million for the three months ended September 30, 2021 as compared to the three months ended September 30, 2020, primarily due to the upfront R&D funding of $90.0 million related to two development-stage products, paid on the closing of our strategic funding partnership with MorphoSys in July 2021.

Nine Months Ended September 30, 2021 and 2020

R&D funding expense increased by $77.8 million, or 420.1%, for the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020, primarily driven by the upfront R&D funding partially offset by lower expenses under our R&D agreement with Sanofi as development nears completion.

G&A expenses

Three months ended September 30, 2021 and 2020

G&A expenses were relatively flat in the three months ended September 30, 2021 compared to the three months ended September 30, 2020.

Nine Months Ended September 30, 2021 and 2020

G&A expenses were relatively flat in the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020.

Equity in earnings of non-consolidated affiliates

Three months ended September 30, 2021 and 2020

Equity in earnings of non-consolidated affiliates decreased $11.0 million, or 80.0%, in the three months ended September 30, 2021 compared to the three months ended September 30, 2020.

Equity in earnings from the Legacy SLP Interest was $11.2 million and $24.2 million, in the three months ended September 30, 2021 and 2020, respectively. The decrease in equity in earnings of the Legacy SLP Interest was primarily driven by lower net income attributable to Old RPI in the three months ended September 30, 2021.

Equity in losses of the Avillion entities was relatively flat in the three months ended September 30, 2021 compared to the three months ended September 30, 2020.

Nine Months Ended September 30, 2021 and 2020

Equity in earnings of non-consolidated affiliates decreased $15.4 million, or 45.4%, in the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020.

Equity in earnings from the Legacy SLP Interest was $41.9 million and $47.6 million in the nine months ended September 30, 2021 and 2020, respectively. The equity in earnings of the Legacy SLP Interest reflects a partial period of equity in earnings subsequent to the Exchange Date in the nine months ended September 30, 2020. The decrease in equity in earnings of the Legacy SLP Interest was primarily driven by lower net income attributable to Old RPI in the three months ended September 30, 2021.

Equity in losses of the Avillion Entities was $23.4 million and $13.6 million for the nine months ended September 30, 2021 and 2020, respectively. In the nine months ended September 30, 2020, the equity in losses was smaller due to a one-time gain we recognized related to the cessation of our involvement in the development of the Merck KGaA Asset.

Interest expense

Three months ended September 30, 2021 and 2020

Interest expense increased by $12.9 million, or 41.0%, in the three months ended September 30, 2021 as compared to the three months ended September 30, 2020, primarily driven by interest expense related to the $1.3 billion senior unsecured notes issued in July 2021 (“2021 Notes”).

Nine Months Ended September 30, 2021 and 2020

Interest expense was relatively flat in the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020. The increase in interest expense related to the 2021 Notes was offset by the lower interest expense related to the $6.0 billion senior unsecured notes issued in September 2020 (the "2020 Notes"), which had a lower weighted average interest rate compared to the senior secured credit facilities that were in place during the nine months ended September 30, 2020.

Refer to the "Liquidity and Capital Resources" section for additional discussion of the Notes and our debt refinancings in 2020.

Other expense/(income), net

Three months ended September 30, 2021 and 2020

Other expense, net of $39.7 million in the three months ended September 30, 2021, was primarily comprised of losses on equity securities of $19.3 million driven by a net decrease in the share price of our investees and a loss on derivative financial instruments of $17.0 million due to the change in fair value of the treasury lock contracts.

Other income, net was $131.4 million in the three months ended September 30, 2020, primarily comprised of gains on equity securities of $160.2 million driven by an increase in the share price of our investment in Immunomedics common stock following the announcement of the acquisition of Immunomedics by Gilead. Partially offsetting these gains was a loss on debt extinguishment of $25.1 million recorded in the three months ended September 30, 2020, which primarily consisted of unamortized loan issuance costs and original issue discount related to our senior secured credit facilities that were written off as a result of the refinancing completed in September 2020.

Nine Months Ended September 30, 2021 and 2020

Other income, net was $10.9 million in the nine months ended September 30, 2021, primarily comprised of interest income of $40.5 million related to our Series A Biohaven Preferred Shares. We also recognized losses of $21.4 million related to decreases in the fair market value of our derivative financial instruments and losses of $18.0 million related to equity securities due to a net decrease in the share price of our investees.

Other income, net was $139.2 million in the nine months ended September 30, 2020, primarily comprised of gains on equity securities of $201.0 million, primarily due to an increase in the share price of Immunomedics common stock, which was partially offset by a decrease in share price of our investment in Epizyme common stock. The gains were partially offset by losses on derivative financial instruments of $39.9 million primarily related to a decrease in fair value of our Epizyme warrant and losses on our interest rate swaps due to adverse movements in the LIBOR curve prior to the termination of interest rate swaps in February 2020. Additionally, we recorded a loss on debt extinguishment of $30.5 million in the nine months ended September 30, 2020 related to the debt refinancings completed in 2020.

Net income attributable to non-controlling interest

Three months ended September 30, 2021 and 2020

Net income attributable to the Legacy Investors Partnerships, which arose in February 2020 in connection with the Exchange Offer Transactions, was $63.4 million in the three months ended September 30, 2021, a decrease of $62.0 million, compared to the three months ended September 30, 2020, primarily driven by lower net income attributable to Old RPI in the three months ended September 30, 2021.

Net income attributable to the Continuing Investors Partnerships, which arose in connection with the IPO, was $42.6 million in the three months ended September 30, 2021, a decrease of $143.7 million compared to the three months ended September 30, 2020, primarily driven by lower net income attributable to RP Holdings in the three months ended September 30, 2021.

Net income attributable to RPSFT was $13.9 million and $21.9 million in the three months ended September 30, 2021 and 2020, respectively. We expect net income attributable to RPSFT to continue to decline as the assets held by RPCT mature.

Nine Months Ended September 30, 2021 and 2020

Net income attributable to the Legacy Investors Partnerships was $233.4 million and $246.1 million in the nine months ended September 30, 2021 and 2020, respectively. The net income attributable to the Legacy Investors Partnerships reflects a partial period of net income subsequent to the Exchange Date in the nine months ended September 30, 2020. The decrease in net income attributable to the Legacy Investors Partnerships was primarily driven by lower net income attributable to Old RPI in the nine months ended September 30, 2021.

Net income attributable to the Continuing Investors Partnerships was $294.1 million and $217.9 million, in the nine months ended September 30, 2021 and 2020, respectively. The net income attributable to the Continuing Investors Partnerships reflects a partial period of net income subsequent to the IPO in the nine months ended September 30, 2020.

Net income attributable to RPSFT was $48.2 million and $67.5 million in the nine months ended September 30, 2021 and 2020, respectively.

Key developments and upcoming events relating to our portfolio

The key developments impacting our cash receipts and income and revenue from our royalty interests are discussed below:

Commercial Products

- **Cystic fibrosis franchise.** In August 2020, Vertex announced that the European Commission (EC) had granted marketing authorization of Kaftrio in a combination regimen with ivacaftor for the treatment of patients with cystic fibrosis ages 12 years and older with one *F508del* mutation and one minimal function mutation, or two *F508del* mutations in the CFTR gene.

  In December 2020, the FDA expanded the eligibility for Trikafta to include people with cystic fibrosis ages 12 and older with certain mutations that are responsive to Trikafta based on in vitro data.

  In April 2021, Vertex announced EC approval for Kaftrio in combination with Ivacaftor for the treatment of patients with cystic fibrosis ages 12 and older who have at least one F508del mutation.

  In June 2021, Vertex announced that the FDA approved Trikafta for the treatment of children with cystic fibrosis ages 6 to 11 who have at least one F508del mutation or have certain mutations that are responsive to Trikafta based on in vitro data. Vertex has also filed a regulatory submission for the use of Kaftrio in children ages 6 to 11 to the European Medicines Agency (EMA).

- **Tysabri.** In June 2020, Biogen submitted a supplemental Biologics License Application (sBLA) for a subcutaneous formulation of Tysabri to the FDA. This followed a regulatory submission for a subcutaneous formulation of Tysabri to the EMA in March 2020. In April 2021 Biogen announced that the EC granted marketing authorization for a subcutaneous injection of Tysabri to treat relapsing-remitting multiple sclerosis. Biogen also announced that it had received a Complete Response Letter (CRL) from the FDA for its sBLA for subcutaneous Tysabri. The CRL indicates that the FDA is unable to approve Biogen's filing as submitted. Biogen announced that it is evaluating the CRL and will determine next steps in the United States.

  In August 2021, Biogen announced results from Phase 3b NOVA study evaluation every six-week dosing with Tysabri IV administration in relapsing-remitting multiple sclerosis. Results show that every six-week Tysabri IV administration provides a high level of efficacy in controlling multiple sclerosis disease activity in patients who switched from the approved every four-week dosing regimen.

- **Imbruvica.** In April 2020, Imbruvica received FDA approval for use in combination with rituximab for the treatment of previously untreated patients with chronic lymphocytic leukemia (CLL) or small lymphocytic lymphoma (SLL).

  In August 2020, the EC granted marketing authorization for Imbruvica in combination with rituximab for the treatment of adult patients with previously untreated CLL. This milestone marked the 11th FDA approval for Imbruvica since it was first approved in 2013 and sixth in CLL.

In June 2021, Phase 3 GLOW study results were announced for Imbruvica in combination with Venetoclax for the treatment of first-line CLL and SLL demonstrated superior progression-free survival versus chlorambucil plus obinutuzumab as a first-line treatment of CLL. The study also showed improved duration of remission and significantly improved depth of remission. AbbVie has indicated that approval could occur in 2022.

In August 2021, AbbVie announced that the U.S. District Court for the District of Delaware had issued a decision holding patent rights relating to Imbruvica were valid and infringed by a generic product from Alvogen and Natco. The decision, which is subject to appeal, prohibits regulatory approval of that generic product until the last AbbVie patent expires. Previously, AbbVie entered into several settlement and license agreements with other generic companies. Consequently, Abbvie does not expect any generic product entry prior to March 30, 2032, assuming pediatric exclusivity is granted.

- **Xtandi.** Astellas and Pfizer have indicated that there could be a potential readout of the Phase 3 EMBARK trial for high-risk non-metastatic prostate cancer in 2022, with a primary trial completion date anticipated in 2023.

  In May 2021, Astellas and Pfizer announced that the EC approved Xtandi for the treatment of patients with metastatic hormone-sensitive prostate cancer (mHSPC).

  In September 2021, Astellas Pharma and Pfizer announced that Xtandi plus androgen deprivation therapy (ADT) reduced the risk of death by 34% compared to placebo plus ADT in the Phase 3 ARCHES study in men with mHSPC. Overall survival was a key secondary endpoint in the study.

- **Trodelvy.** In April 2020, Immunomedics announced that the FDA granted accelerated approval of Trodelvy for the treatment of patients with metastatic triple-negative breast cancer (TNBC) who have received at least two prior therapies for metastatic disease.

  In September 2020, Gilead and Immunomedics announced that Gilead would acquire Immunomedics for approximately $21 billion in cash and the transaction closed in October 2020. In 2018, we entered into a partnership with Immunomedics whereby we acquired a tiered sales-based royalty on Trodelvy for $175.0 million and acquired 4,373,178 shares of Immunomedics common stock for $75.0 million. Gilead's acquisition of Immunomedics closed in October 2020, resulting in gross cash proceeds upon redemption of our Immunomedics common stock of approximately $385 million.

  In April 2021, Gilead announced the FDA granted full approval to Trodelvy for adult patients with unresectable locally advanced or metastatic TNBC who have received two or more prior systemic therapies, at least one of them for metastatic disease. The approval is supported by data from the Phase 3 ASCENT study.

  In April 2021, Gilead announced that the FDA granted an accelerated approval of Trodelvy for use in adult patients with locally advanced or metastatic urothelial cancer who have previously received a platinum-containing chemotherapy and either a programmed death receptor-1 (PD-1) or a programmed death-ligand 1 (PD-L1) inhibitor. The accelerated approval was based on data from the international Phase 2, single-arm TROPHY study.

  In June 2021, Gilead announced superior outcomes to standard of care in second-line treatment of metastatic triple-negative breast cancer in Phase 3 ASCENT study. Trodelvy more than doubled overall survival as second-line treatment in new ASCENT subgroup analysis.

  In October 2021, Gilead announced that the EMA adopted a positive opinion for Trodelvy as a monotherapy indicated for adult patients with unresectable or metastatic TNBC who have received two or more prior systemic therapies, at least one of them for advanced disease. The final EC decision on the MAA for Trodelvy is anticipated later in 2021.

  In October 2021, Gilead announced that progression-free survival data from the Phase 3 TROPiCS-02 trial testing Trodelvy versus physician's choice in hormone receptor positive/human epidermal growth factor receptor 2 negative metastatic breast cancer who have previously failed at least two, and no more than four, prior chemotherapy regimens for metastatic disease was expected in the first quarter of 2022.

- **Nurtec ODT.** In February 2020, Biohaven announced that the FDA approved Nurtec ODT for the acute treatment of migraine in adults. The FDA approval of Nurtec ODT triggered a redemption provision related to our investment in the Series A Biohaven Preferred Shares, which entitles us to receive a fixed payment amount of $250.0 million payable in equal quarterly payments from March 31, 2021 through December 31, 2024.

  In October 2020, Biohaven announced that the FDA had filed and accepted for review its recently submitted sNDA for Nurtec ODT for the preventive treatment of migraine. The Prescription Drug User Fee Act target date for completion of the FDA review of the preventive application for Nurtec ODT was the second quarter of 2021.

  In March 2021, Biohaven announced that its filing for rimegepant was submitted and accepted for review by the EMA for the treatment of migraine, inclusive of both acute and preventive treatment.

  In May 2021, Biohaven announced that the FDA approved Nurtec ODT for the preventative treatment of migraine, indicated for adult patients with episodic migraine who experience less than 15 headache days per month.

  In November 2021, Biohaven announced a strategic collaboration with Pfizer for the commercialization of rimegepant outside the United States. Pfizer also gains rights outside the United States to zavegepant, which is being studied in an intranasal delivery and an oral formulation in Phase 3 clinical trials for migraine indications. Royalty Pharma is entitled to royalties on annual worldwide net sales of rimegepant (commercialized as Nurtec ODT in the United States) and zavegepant.

- **Evrysdi.** In August 2020, the FDA approved Evrysdi, the first at-home, orally administered treatment for spinal muscular atrophy (SMA) in adults and children ages 2 months and older.

  In March 2021, Roche announced that the EC approved Evrysdi for the treatment of SMA in patients two months of age and older, with a clinical diagnosis of SMA Type 1, Type 2 or Type 3 or with one to four splicing modifier of motor neuron 2 (SMN2) copies.

  In June 2021, Evrysdi was approved in Japan for the treatment of SMA.

- **Orladeyo.** In December 2020, BioCryst announced that Orladeyo was approved by the FDA for prophylaxis to prevent attacks of hereditary angioedema (HAE) in patients ages 12 years and older.

  In January 2021, Orladeyo was approved in Japan, becoming the first and only prophylactic HAE medication approved in the region.

  In April 2021, BioCryst announced that the EC approved Orladeyo for the prevention of recurrent HAE attacks in patients 12 years and older.

  In April 2021, BioCryst announced approval of Japanese National Health Insurance System price listing of Orladeyo for prophylactic treatment of HAE.

- **Cabometyx.** In January 2021, Exelixis announced that the FDA approved Cabometyx for patients with advanced renal cell carcinoma (RCC) as a first-line treatment in combination with Bristol Myers Squibb's Opdivo. The approval was based on the Phase 3 CheckMate -9ER trial, in which the combination of Cabometyx and Opdivo significantly improved overall survival while doubling progression-free survival and objective response rate versus sunitinib as a first-line treatment for patients with advanced RCC.

  In March 2021, Ipsen announced that the EC approved the combination of Cabometyx and Opdivo for the first-line treatment of advanced RCC.

  In May 2021, Exelixis announced results from cohort six of COSMIC-021, a Phase 1b trial evaluating Cabometyx in combination with atezolizumab in patients with locally advanced or metastatic solid tumors, including patients with metastatic castration-resistant prostate cancer (CRPC). In high-risk patients, the combination of Cabometyx and atezolizumab resulted in objective response rates of 27% and 18% per investigator assessment and Blinded Independent Radiology Committee, respectively.

In June 2021, Exelixis and Ipsen announced that COSMIC-312, a Phase 3 trial evaluating Cabometyx in combination with atezolizumab versus sorafenib in patients with previously untreated advanced hepatocellular carcinoma (HCC). The trial met one of its primary endpoints by demonstrating significant improvement in progression-free survival at the planned primary analysis. However, a prespecified interim analysis was not statistically significant for the second primary endpoint of overall survival. Based on the preliminary overall survival data, Exelixis anticipates that the probability of reaching statistical significance at the time of the final analysis is low. Exelixis announced that it plans to present these results at a future medical meeting. Based on recent feedback from the FDA, Exelixis plans to file an sNDA in early 2022 once final OS data is available.

In August 2021, Exelixis announced that their partners Takeda and Ono received approval in Japan for Cabometyx in combination with Opdivo for the treatment of unresectable or metastatic RCC. Approval is based on the CheckMate -9ER trial of Cabometyx in combination with Opdivo, which demonstrated superior overall survival and doubled mean progression-free survival and objective response rate versus sunitinib, with a favorable safety profile.

In September 2021, Exelixis announced detailed results from the expanded Cohort 6 of the Phase 1b COSMIC-021 trial of Cabometyx in combination with atezolizumab in patients with metastatic CRPC, which included patients with metastatic CRPC who had been previously treated with novel hormone therapies enzalutamide and/or abiraterone acetate used along with prednisone. Following discussions with FDA, Exelixis will not pursue a regulatory submission for the combination regimen based on cohort 6 of COSMIC-021. CONTACT-02, a global Phase 3 pivotal trial that initiated enrollment in June 2020 may serve as a basis for future regulatory applications.

In September 2021, Exelixis announced FDA approved Cabometyx for patients with previously treated radioactive iodine-refractory differentiated thyroid cancer. The approval was based on the Phase 3 COSMIC-311 pivotal trial.

Development-Stage Product Candidates

- **Gantenerumab:** In October 2021, Roche announced that gantenerumab, an anti-amyloid beta antibody developed for subcutaneous administration, has been granted Breakthrough Therapy Designation by the FDA for the treatment of people living with Alzheimer’s disease. This designation is based on data showing that gantenerumab significantly reduced brain amyloid plaque, a pathological hallmark of Alzheimer’s disease, in the ongoing SCarlet RoAD and Marguerite RoAD open-label extension trials, as well as other studies.

- **PT027:** In September 2021, AstraZeneca and Avillion announced positive results from MANDALA and DENALI, two Phase 3 trials evaluating PT027 (albuterol/budesonide) in patients with asthma. PT027 is a potential first-in-class inhaled, fixed-dose combination of albuterol, a short-acting beta2-agonist, and budesonide, an inhaled corticosteroid. In MANDALA, PT027 demonstrated a statistically significant and clinically meaningful reduction in the risk of severe exacerbations compared to albuterol, when used as a rescue medicine in response to symptoms. In DENALI, PT027 showed a statistically significant improvement in lung function measured by forced expiratory volume in one second, compared to the individual components albuterol and budesonide, and compared to placebo. The safety and tolerability of PT027 in both trials was consistent with the known profiles of the components.

- **Oxlumo.** In July 2021, Alnylam announced results from ILLUMINATE-C, a phase 3 open-label study of lumasiran in patients of all ages with advanced primary hyperoxaluria type 1 (PH1) associated with progressive decline in renal function. Results from the primary analysis at six months demonstrated a substantial reduction in plasma oxalate from baseline in patients (n=21) with advanced disease, including those on hemodialysis. The safety and tolerability profile of lumasiran following six months of treatment was encouraging across all ages, with no drug related serious adverse events (SAEs) and injection site reactions (ISRs) as the most common adverse event (AE). Based on these results, Alnylam announced that it plans to submit a sNDA for lumasiran with the FDA and a Type II Variation with the EMA in late 2021.

- **Zavegepant.** In October 2020, Biohaven began a one-year long-term safety trial of zavegepant. Biohaven expects a potential NDA filing by end of 2021 if the pivotal acute trial proves to be positive.

  In March 2021, Biohaven announced that it enrolled the first patient in a Phase 2/3 clinical trial of oral zavegepant for the preventive treatment of migraine. Accordingly, per the agreement with Biohaven announced in August 2020, Royalty Pharma paid $100 million to Biohaven for the achievement of this milestone, bringing the total zavegepant funding to $250 million.

- **Omecamtiv mecarbil**. In November 2020, Amgen, Cytokinetics and Servier presented the results of GALACTIC-HF study, a Phase 3 trial of omecamtiv mecarbil in patients with heart failure, at the American Heart Association Scientific Sessions. The trial met the primary composite endpoint of reduction in cardiovascular death or heart failure events, but did not meet the secondary endpoint of reduction in cardiovascular death. Cytokinetics subsequently regained global rights to develop and commercialize omecamtiv mercarbil when Amgen and Servier elected to terminate their collaboration agreement effective, May 2021. Following the Phase 3 results and termination of the collaboration, we recorded a $90 million write-off in December 2020 to the royalty investment given the uncertainty around the future of omecamtiv.

  In the second quarter of 2021, Cytokinetics announced that it has engaged with the FDA in both a Type C meeting and a pre-NDA meeting to inform its plans to submit NDA for omecamtiv mecarbil in the fourth quarter of 2021. The submission will be based on GALACTIC-HF which demonstrated a positive effect on the primary composite endpoint of cardiovascular death or heart failure events in patients with heart failure and reduced ejection fraction who were receiving standard of care plus omecamtiv mecarbil.

- **Ibrance.** In May 2020, Pfizer reported that the independent data monitoring committee for the PALLAS trial had concluded after the interim analysis that the PALLAS trial was “unlikely to show a statistically significant improvement in the primary endpoint of invasive disease-free survival.” In October 2020, Pfizer announced that the Phase 3 PENELOPE-B trial did not meet the primary endpoint of improved invasive disease-free survival in women with hormone receptor-positive, human epidermal growth factor-negative early breast cancer who have residual invasive disease after completing neoadjuvant chemotherapy. As a result, we will not be entitled to any royalties or milestone payments from this R&D funding arrangement.

Non-GAAP Financial Results

In addition to analyzing our results on a GAAP basis, management also reviews our results on a non-GAAP basis. There is no direct correlation between income from financial royalty assets and royalty receipts due to the nature of the accounting methodology applied for financial royalty assets. Further, income from financial royalty assets and the provision for changes in expected cash flows related to these financial royalty assets can be volatile and unpredictable. As a result, management places importance on royalty receipts as they are predictable and we use them as a measure of our operating performance. Refer to section titled “*Non-GAAP Reconciliations*” for additional discussion of management’s use of non-GAAP measures as supplemental financial measures and reconciliations from the most directly GAAP comparable measures of *Net cash provided by operating activities*.

Adjusted Cash Receipts is a measure calculated with inputs directly from the Statement of Cash Flows and includes (1) royalty receipts by product: (i) Cash collections from royalty assets (financial assets and intangible assets), (ii) *Other royalty cash collections*, (iii) *Distributions from non-consolidated affiliates*, plus (2) *Proceeds from available for sale debt securities and* less (3) *Distributions to non-controlling interest*, which represents contractual distributions of royalty receipts and proceeds from available for sale debt securities to our historical non-controlling interest attributable to a de minimis interest in RPCT held by certain legacy investors and to a new non-controlling interest that was created as a result of the Exchange Offer Transactions in February 2020 related to the Legacy Investors Partnerships’ ownership of approximately 18% in Old RPI. Adjusted Cash Receipts is most directly comparable to the GAAP measure of *Net cash provided by operating activities*.

Adjusted EBITDA and Adjusted Cash Flow are similar non-GAAP liquidity measures that are both most closely comparable to the GAAP measure, *Net cash provided by operating activities*. Adjusted EBITDA is important to our lenders and is defined as Adjusted Cash Receipts less Payments for operating and professional costs. Payments for operating and professional costs are comprised of *Payments for operating and professional costs* and *Payments for rebates* from the Statement of Cash Flows.

Adjusted Cash Flow is defined as Adjusted EBITDA less (1) *Ongoing development-stage funding payments*, (2) Interest paid, net of interest received, (3) Other (including *Derivative collateral posted*, net of *Derivative collateral received* and *Termination payments on derivative instruments*), and (4) *Investments in non-consolidated affiliates*, and plus (1) *Contributions from non-controlling interest- R&D*, all directly reconcilable to the Statement of Cash Flows.

Adjusted Cash Receipts and Adjusted Cash Flow are used by management as key liquidity measures in the evaluation of our ability to generate cash from operations. Both measures are an indication of the strength of the Company and the performance of the business. Management also uses Adjusted Cash Flow to compare its performance against non-GAAP adjusted net income used by companies in the biopharmaceutical industry. Adjusted EBITDA, as derived from Adjusted Cash Receipts, is used by our lenders to assess our ability to meet our financial covenants.

The table below includes the royalty receipts and non-GAAP financial results for the three and nine months ended September 30, 2021 and 2020 by product in order of contribution to income for the nine months ended September 30, 2021.

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,		Nine-Months Year-to-date Change	
	2021	2020	2021	2020	$	%
Products						
Cystic fibrosis franchise (1)	$ 182,876	$ 156,952	$ 505,708	$ 392,474	$ 113,234	28.9 %
Tysabri	95,805	76,617	274,796	252,941	21,855	8.6 %
Imbruvica	87,924	77,816	264,348	237,038	27,310	11.5 %
Promacta	48,151	39,734	124,617	102,135	22,482	22.0 %
Xtandi	40,237	38,498	117,049	107,406	9,643	9.0 %
Januvia, Janumet, Other DPP-IVs (2)	37,934	34,485	113,133	104,132	9,001	8.6 %
HIV franchise (3)	1,858	66,869	76,981	215,448	(138,467)	(64.3)%
Nurtec ODT/Biohaven payment (4)	17,948	227	51,170	227	50,943	*
Prevymis	9,929	6,786	27,331	13,199	14,132	107.1 %
Farxiga/Onglyza	9,321	8,290	26,996	16,547	10,449	63.1 %
Cabometyx/Cometriq	12,038	—	22,167	—	22,167	— %
Tremfya	16,610	—	16,610	—	16,610	— %
Crysvita	4,576	3,384	12,092	6,004	6,088	101.4 %
Emgality	4,542	2,598	11,356	6,811	4,545	66.7 %
Evrysdi	5,897	—	10,546	—	10,546	— %
Erleada	3,736	2,104	9,957	5,314	4,643	87.4 %
IDHIFA	3,079	3,282	8,568	3,282	5,286	161.1 %
Trodelvy	2,521	833	8,118	833	7,285	874.5 %
Orladeyo	2,502	—	3,471	—	3,471	— %
Tazverik	958	166	2,165	262	1,903	726.3 %
Other products (5)	123,761	69,819	262,181	253,028	9,153	3.6 %
Total royalty receipts	**$ 712,203**	**$ 588,460**	**$ 1,949,360**	**$ 1,717,081**	**$ 232,279**	13.5 %
Distributions to non-controlling interest	(125,427)	(116,347)	(363,624)	(400,893)	37,269	(9.3)%
Adjusted Cash Receipts (non-GAAP)	**$ 586,776**	**$ 472,113**	**$ 1,585,736**	**$ 1,316,188**	**$ 269,548**	20.5 %
Payments for operating and professional costs	(53,509)	(59,398)	(135,272)	(129,382)	(5,890)	4.6 %
Adjusted EBITDA (non-GAAP)	**$ 533,267**	**$ 412,715**	**$ 1,450,464**	**$ 1,186,806**	**$ 263,658**	22.2 %
Interest paid, net	(64,587)	(15,119)	(126,755)	(94,953)	(31,802)	33.5 %
Investments in non-consolidated affiliates	(10,893)	—	(28,320)	(29,262)	942	(3.2)%
Ongoing development-stage funding payments	$ (500)	$ (5,095)	$ (6,263)	$ (18,510)	$ 12,247	(66.2)%
Other	(18,223)	—	(16,093)	9,804	(25,897)	(264.1)%
Contributions from non-controlling interest- R&D	2,003	1,107	6,083	6,221	(138)	(2.2)%
Adjusted Cash Flow (non-GAAP)	**$ 441,067**	**$ 393,608**	**$ 1,279,116**	**$ 1,060,106**	**$ 219,010**	20.7 %
Weighted average Class A ordinary shares outstanding - diluted	**607,174**	**	**607,152**	**		

*Percentage change is not meaningful.
** Prior year figures are not meaningful for comparison purposes.

(1) The cystic fibrosis franchise includes the following approved products: Kalydeco, Orkambi, Symdeko/Symkevi and Trikafta/Kaftrio.
(2) Januvia, Janumet, Other DPP-IVs include the following approved products: Tradjenta, Onglyza, Kombiglyze, Galvus, Eucreas and Nesina. The Other DPP-IVs are marketed by Boehringer Ingelheim, AstraZeneca, Novartis and Takeda.
(3) The HIV franchise includes the following approved products: Atripla, Truvada, Emtriva, Complera, Stribild, Genvoya, Descovy, Odefsey, Symtuza and Biktarvy. Royalties are received on the emtricitabine portion of sales only.
(4) Includes royalty receipts for Nurtec ODT of $2.3 million and $4.3 million for the three and nine months ended September 30, 2021, respectively, and quarterly redemptions of $15.6 million of the Series A Biohaven Preferred Shares (presented as *Proceeds from available for sale debt securities* on the Statement of Cash Flows) in 2021.
(5) Other products primarily include royalties on the following products: Bosulif (a product co-developed by our joint venture investee, Avillion, for which receipts are presented as *Distributions from non-consolidated affiliates* on the Statement of Cash Flows), Letairis, Lyrica, Cimzia, Entyvio, Lexiscan, Mircera, Myozyme, Nesina, Soliqua and a one-time $21.3 million distribution from Avillion in respect of the Merck KGaA Asset in the three months ended June 30, 2020, for which the receipt is presented as *Distributions received from non-consolidated affiliates* in both the operating and investing section of the Statement of Cash Flows. In the three months ended September 30, 2021, we collected a one-time $45.0 million milestone payment on Soliqua. Subsequent to the Exchange Offer Transactions, other products also includes contributions from the Legacy SLP Interest.

Adjusted Cash Receipts (non-GAAP)

Nine Months Ended September 30, 2021 and 2020

Adjusted Cash Receipts increased by $269.5 million to $1.6 billion in the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020, primarily driven by an increase in royalty receipts from the cystic fibrosis franchise, including royalty receipts related to the residual interest in the cystic fibrosis franchise that we acquired in October 2020, fixed payments from Biohaven on the Series A Biohaven Preferred Shares and new assets acquired subsequent to the nine months ended September 30, 2020. Offsetting the increase in royalty receipts is a decline in royalty receipts from maturing assets, primarily the HIV franchise, Lyrica and Letairis. Additionally, we received one-time payments of $45.0 million related to a commercial milestone for Soliqua and $21.3 million from Avillion II in connection with the cessation of our involvement in the Merck KGaA Asset development in the nine months ended September 30, 2021 and 2020, respectively. The increase in Adjusted Cash Receipts is further driven by a decrease in distributions to non-controlling interest, primarily due to a non-recurring distribution to the Legacy Investors Partnerships in connection with the Exchange Offer Transactions that occurred in the three months ended March 31, 2020.

Below we discuss the key drivers of royalty receipts.

Royalty Receipts

- **Cystic fibrosis franchise** – Royalty receipts from the cystic fibrosis franchise, which includes Kalydeco, Orkambi, Symdeko/Symkevi and Trikafta/Kaftrio, all approved for patients with certain mutations causing cystic fibrosis, increased by $113.2 million in the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020. The increase was driven by a clawback adjustment related to Vertex's agreement with French authorities around reimbursement for Orkambi that reduced royalty receipts in the three months ended March 31, 2020, as well as growth in sales for the overall cystic fibrosis franchise resulting from continued uptake of Trikafta in the United States and Kaftrio in Europe. Following our acquisition of the residual interest from the Cystic Fibrosis Foundation in the three months ended December 31, 2020, we are entitled to all royalty receipts on annual worldwide net sales above $5.8 billion and received royalty receipts related to the residual interest in the cystic fibrosis franchise in the nine months ended September 30, 2021.

- **Tysabri** – Royalty receipts from Tysabri, which is marketed by Biogen for the treatment of multiple sclerosis, increased by $21.9 million in the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020, driven by continued patient growth.

- **Imbruvica** – Royalty receipts from Imbruvica, which is marketed by AbbVie and Johnson & Johnson for the treatment of blood cancers and chronic graft versus host disease, increased by $27.3 million in the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020, driven by continued global penetration in patients with chronic lymphocytic leukemia and favorable pricing. This increase was partially offset by modest market share losses in the United States, lower new patient starts due to the COVID-19 pandemic as well as the impact of a COVID-19 inventory stocking benefit in the nine months ended September 30, 2020.

- **Promacta** – Royalty receipts from Promacta, which is marketed by Novartis for the treatment of chronic immune thrombocytopenia and aplastic anemia, increased by $22.5 million in the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020. This growth was driven by increased use in immune thrombocytopenia and as first-line treatment for severe aplastic anemia in the United States.

- **Xtandi** – Royalty receipts from Xtandi, which is marketed by Pfizer and Astellas for the treatment of prostate cancer, increased by $9.6 million in the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020, driven by demand across various prostate cancer indications.

- **Januvia, Janumet, Other DPP-IVs** – Royalty receipts from the DPP-IVs for type 2 diabetes, which includes Januvia and Janumet, both marketed by Merck, increased by $9.0 million in nine months ended September 30, 2021 compared to the nine months ended September 30, 2020.

- **Nurtec ODT** – Royalty receipts from Nurtec ODT, marketed by Biohaven for the acute treatment of migraine, were $4.3 million in the nine months ended September 30, 2021. In addition, as a result of the approval of Nurtec ODT in February 2020, we received $46.9 million in fixed payments from Biohaven during the nine months ended September 30, 2021, which represent the first three of 16 consecutive quarterly payments to be received from Biohaven relating to the Series A Biohaven Preferred Shares.

- **Cabometyx/Cometriq** – Royalty receipts from Cabometyx/Cometriq, which is marketed by Exelixis, Ipsen and Takeda, were $22.2 million in the nine months ended September 30, 2021. We acquired the Cabometyx/Cometriq royalty in March 2021.

- **Tremfya** – Royalty receipts from Tremfya, which is marketed by Johnson & Johnson, were $16.6 million in the nine months ended September 30, 2021. We acquired the Tremfya royalty in July 2021.

- **HIV franchise** – Royalty receipts from the HIV franchise, which is based on products marketed by Gilead that contain emtricitabine, including Biktarvy, Genvoya and Truvada, among others, decreased by $138.5 million in the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020. This decrease was driven by the maturity of our royalties from the HIV franchise in the nine months ended September 30, 2021.

Distributions to Non-Controlling Interest

Distributions to non-controlling interest decreased by $37.3 million to $363.6 million in the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020, which positively impacted Adjusted Cash Receipts. The decrease in distributions to non-controlling interest is primarily due to a non-recurring distribution to the Legacy Investors Partnerships in connection with the Exchange Offer Transactions that occurred in the three months ended March 31, 2020. Partially offsetting the decrease was a one-time distribution to non-controlling interest of $7.9 million related to the one-time $45.0 million milestone payment on Soliqua.

Adjusted EBITDA (non-GAAP)

Nine Months Ended September 30, 2021 and 2020

Adjusted EBITDA increased by $263.7 million to $1.5 billion in the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020 as a result of the factors noted above in “Adjusted Cash Receipts (Non-GAAP)”. Payments for operating and professional costs, the only adjustment between Adjusted Cash Receipts and Adjusted EBITDA, increased in 2021 as a result of higher costs for Operating and Personnel Payments under the terms of our Management Agreement offset by a decrease in non-recurring professional services fees, restructuring fees and refinancing fees incurred in the nine months ended September 30, 2020 in connection with the Exchange Offer Transactions and the IPO.

Adjusted Cash Flow (non-GAAP)

Nine Months Ended September 30, 2021 and 2020

Adjusted Cash Flow increased by $219.0 million to $1.3 billion in the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020 primarily for the same reasons noted above in "Adjusted Cash Receipts (Non-GAAP)." The increase in Adjusted Cash Flow was offset by a $31.8 million increase in net interest paid in the nine months ended September 30, 2021 due to a shift to semi-annual interest payments on the 2020 Notes and a $16.1 million one-time payment related to the settlement of treasury rate lock contracts in connection with the 2021 Notes issuance. Further, the increase in Adjusted Cash Flow was attributed to the lower ongoing development-stage funding requirements under our co-funding agreement with Sanofi and the lower funding requirements by the Avillion entities following the cessation of our involvement in the Merck KGaA Asset development in 2020.

Non-GAAP Reconciliations

Adjusted Cash Receipts, Adjusted EBITDA and Adjusted Cash Flow are non-GAAP measures presented as supplemental measures to our GAAP financial performance. These non-GAAP financial measures exclude the impact of certain items and therefore have not been calculated in accordance with GAAP. In each case, because our operating performance is a function of our liquidity, the non-GAAP measures used by management are presented and defined as supplemental liquidity measures. We caution readers that amounts presented in accordance with our definitions of Adjusted Cash Receipts, Adjusted EBITDA, and Adjusted Cash Flow may not be the same as similar measures used by other companies. Not all companies and analysts calculate the non-GAAP measures we use in the same manner. We compensate for these limitations by using non-GAAP financial measures as supplements to GAAP financial measures and by presenting the reconciliations of the non-GAAP financial measures to their most comparable GAAP financial measures, in each case being *Net cash provided by operating activities*.

We believe that Adjusted Cash Receipts and Adjusted Cash Flow provide meaningful information about our operating performance because the business is heavily reliant on its ability to generate consistent cash flows and these measures reflect the core cash collections and cash charges comprising our operating results. Management strongly believes that our significant operating cash flow is one of the attributes that attracts potential investors to our business.

In addition, we believe that Adjusted Cash Receipts and Adjusted Cash Flow help identify underlying trends in the business and permit investors to more fully understand how management assesses the performance of the Company, including planning and forecasting for future periods. Adjusted Cash Receipts and Adjusted Cash Flow are used by management as key liquidity measures in the evaluation of the Company's ability to generate cash from operations. Both measures are an indication of the strength of the Company and the performance of the business. Management uses Adjusted Cash Receipts and Adjusted Cash Flow when considering available cash, including for decision-making purposes related to funding of acquisitions, voluntary debt repayments, dividends and other discretionary investments. Further, these non-GAAP financial measures help management, the audit committee and investors evaluate our ability to generate liquidity from operating activities.

Management believes that Adjusted EBITDA is an important non-GAAP measure in analyzing our liquidity and is a key component of certain material covenants contained within the Company's credit agreement. Noncompliance with the interest coverage ratio and leverage ratio covenants under the credit agreement could result in our lenders requiring the Company to immediately repay all amounts borrowed. If we cannot satisfy these financial covenants, we would be prohibited under our credit agreement from engaging in certain activities, such as incurring additional indebtedness, paying dividends, making certain payments, and acquiring and disposing of assets. Consequently, Adjusted EBITDA is critical to the assessment of our liquidity.

Management uses Adjusted Cash Flow to evaluate its ability to generate cash and performance of the business and to evaluate the Company's performance as compared to its peer group. Management also uses Adjusted Cash Flow to compare its performance against non-GAAP adjusted net income measures used by many companies in the biopharmaceutical industry, even though each company may customize its own calculation and therefore one company's metric may not be directly comparable to another's. We believe that non-GAAP financial measures, including Adjusted Cash Flow, are frequently used by securities analysts, investors, and other interested parties to evaluate companies in our industry.

The non-GAAP financial measures used in this Quarterly Report on Form 10-Q have limitations as analytical tools, and you should not consider them in isolation or as a substitute for the analysis of our results as reported under GAAP. We have provided a reconciliation of each non-GAAP financial measure to the most directly comparable GAAP financial measure, in each case being *Net cash provided by operating activities* below.

To arrive at Adjusted Cash Receipts, we start with the GAAP line item, *Net cash provided by operating activities*, and adjust for the following items from the Statement of Cash Flows: to add back (1) *Proceeds from available for sale debt securities* (redemption of Biohaven Preferred Shares), which are cash inflows that management believes are derived from royalties and form part of our core business strategy, (2) *Distributions from non-consolidated affiliates* classified as Cash used in investing activities, (3) *Interest paid*, net of *Interest received*, (4) Development-stage funding payments, (5) *Payments for operating and professional costs*, (6) *Payments for rebates*, and (7) *Termination payments on derivative instruments*, and to deduct (1) *Distributions to non-controlling interest*, which represents distributions to our historical non-controlling interest attributable to a de minimis interest in RPCT held by certain legacy investors and to a new non-controlling interest that was created as a result of the Exchange Offer Transactions in February 2020 related to the Legacy Investors Partnerships' ownership of approximately 18% in Old RPI, and (2) Derivative collateral posted or (received), net, both of which are excluded when management assesses its operating performance through cash collections, or, Adjusted Cash Receipts.

To arrive at Adjusted EBITDA, we start with *Net cash provided by operating activities* and adjust for the following items from the Statement of Cash Flows: to add back (1) *Proceeds from available for sale debt securities* (redemption of Biohaven Preferred Shares), (2) *Distributions from non-consolidated affiliates* classified as Cash used in investing activities, (3) *Interest paid*, net of *Interest received* and (4) Development-stage funding payments and (5) *Termination payments on derivative instruments*, and to deduct (1) *Distributions to non-controlling interest* and (2) Derivative collateral posted or (received), net.

To arrive at Adjusted Cash Flow, we start with *Net cash provided by operating activities* and adjust for the following items from the Statement of Cash Flows: to add back (1) *Proceeds from available for sale debt securities* (redemption of Biohaven Preferred Shares), (2) *Distributions from non-consolidated affiliates* classified as Cash used in investing activities, (3) *Upfront development-stage funding payments*, and (4) *Contributions from non-controlling interest-R&D*, and to deduct (1) *Distributions to non-controlling interest* and (2) *Investments in non-consolidated affiliates*. This is intended to present an Adjusted Cash Flow measure that is representative of cash generated from the broader business strategy of acquiring royalty-generating assets that are available for reinvestment and for discretionary purposes.

(in thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2021	**2020**	**2021**	**2020**
Net cash provided by operating activities (GAAP)	$ 469,759	$ 508,848	$ 1,527,579	$ 1,468,956
Adjustments:				
Proceeds from available for sale debt securities (1), (2)	15,625	—	46,875	—
Distributions from non-consolidated affiliates - investing (2)	—	—	523	15,084
Interest paid, net (2)	64,587	15,119	126,755	94,953
Ongoing development-stage funding payments (3)	500	5,095	6,263	18,510
Upfront development-stage funding payments (3)	90,000	—	90,000	—
Payments for operating and professional costs	53,509	59,398	135,272	129,382
Termination payments on derivative instruments	16,093	—	16,093	35,448
Distributions to non-controlling interest (2)	(125,427)	(116,347)	(363,624)	(400,893)
Derivative collateral received, net (2)	2,130	—	—	(45,252)
Adjusted Cash Receipts (non-GAAP)	**$ 586,776**	**$ 472,113**	**$ 1,585,736**	**$ 1,316,188**
Net cash provided by operating activities (GAAP)	$ 469,759	$ 508,848	$ 1,527,579	$ 1,468,956
Adjustments:				
Proceeds from available for sale debt securities (1), (2)	15,625	—	46,875	—
Distributions from non-consolidated affiliates - investing (2)	—	—	523	15,084
Interest paid, net (2)	64,587	15,119	126,755	94,953
Ongoing development-stage funding payments (3)	500	5,095	6,263	18,510
Upfront development-stage funding payments (3)	90,000	—	90,000	—
Termination payments on derivative instruments	16,093	—	16,093	35,448
Distributions to non-controlling interest (2)	(125,427)	(116,347)	(363,624)	(400,893)
Derivative collateral received, net (2)	2,130	—	—	(45,252)
Adjusted EBITDA (non-GAAP)	**$ 533,267**	**$ 412,715**	**$ 1,450,464**	**$ 1,186,806**
Net cash provided by operating activities (GAAP)	$ 469,759	$ 508,848	$ 1,527,579	$ 1,468,956
Adjustments:				
Proceeds from available for sale debt securities (1), (2)	15,625	—	46,875	—
Distributions from non-consolidated affiliates - investing (2)	—	—	523	15,084
Upfront development-stage funding payments (3)	90,000	—	90,000	—
Distributions to non-controlling interest (2)	(125,427)	(116,347)	(363,624)	(400,893)
Investments in non-consolidated affiliates (2), (4)	(10,893)	—	(28,320)	(29,262)
Contributions from non-controlling interests-R&D (2)	2,003	1,107	6,083	6,221
Adjusted Cash Flow (non-GAAP)	**$ 441,067**	**$ 393,608**	**$ 1,279,116**	**$ 1,060,106**

(1) Receipts from the redemption of our Series A Biohaven Preferred Shares are presented as *Proceeds from available for sale debt securities* on the Statement of Cash Flows.

(2) The table below shows the line item for each adjustment and the direct location for such line item on the Statement of Cash Flows.

Reconciling adjustment	Statement of Cash Flows classification
Proceeds from available for sale debt securities	Investing activities
Investments in non-consolidated affiliates	Investing activities
Distributions to non-controlling interest	Financing activities
Interest paid, net	Operating activities (*Interest paid* less *Interest received*)
Derivative collateral received, net	Operating activities (*Derivative collateral received* less *Derivative collateral posted*)
Contributions from non-controlling interest- R&D	Financing activities
Distributions from non-consolidated affiliates - investing	Investing activities

(3) Our lenders consider all payments made to support R&D activities for products undergoing late-stage development similar to asset acquisitions as these funds are expected to generate operational returns in the future. All ongoing and upfront development-stage funding payments are reported in R&D funding expense in net income and are added back in aggregate to *Net cash provided by operating activities* to arrive at Adjusted EBITDA. As a result, Adjusted EBITDA captures the full add-back for R&D funding payments while Adjusted Cash Flow only reflects the add-back for the upfront portion of development-stage funding payments due to the fact that ongoing development-stage funding payments are considered an ongoing business expense.

(4) We consider all payments to fund our operating joint ventures that are performing R&D activities for products undergoing late stage development similar to asset acquisitions as these funds are expected to generate operational returns in the future. As a result, amounts funded through capital calls by our equity method investees, the Avillion Entities, are deducted to arrive at Adjusted Cash Flow, but are not deducted in Adjusted EBITDA.

Investments Overview

Ongoing investment in new royalties is fundamental to the long-term prospects of our business. New investments provide a source of growth for our royalty receipts, supplementing growth within our existing portfolio and offsetting declines for products in our portfolio that have lost market exclusivity. We evaluate an array of royalty acquisition opportunities on a continuous basis and expect to continue to make acquisitions in the ordinary course of our business. Our team has established a strong track record of identifying, evaluating and investing in royalties tied to leading products across therapeutic areas and treatment modalities. We invest in approved products and development-stage product candidates that have generated robust proof of concept data. We invest in these therapies through the purchase of royalties, by making hybrid investments and by acquiring businesses with significant existing royalty assets or the potential for the creation of such assets.

For the nine months ended September 30, 2021, we invested $2.2 billion in royalties and related assets across four separate transactions. While volatility exists in the quantum of our new acquisitions on a year-to-year basis due to the unpredictable timing of new investment opportunities, we have consistently deployed significant amounts of cash when measured over multi-year periods. Our approach is rooted in a highly disciplined evaluation process that is not dictated by a minimum annual investment threshold.

Summary of royalty acquisition activity

- In June 2021, we announced a long-term strategic funding partnership with MorphoSys AG (“MorphoSys”) to support MorphoSys’ acquisition of Constellation Pharmaceuticals, Inc. (“Constellation”), which closed on July 15, 2021. We agreed to provide up to $2.025 billion of funding to MorphoSys, comprised of an upfront payment of $1.425 billion, additional milestone payments of up to $150 million, up to $350 million of capital (“Development Funding Bonds”), which MorphoSys may draw over a one-year period from the close of its acquisition of Constellation. MorphoSys is required to draw a minimum of $150 million of Development Funding Bonds. In connection with the closing of MorphoSys’ acquisition of Constellation, we purchased 1,337,552 ordinary shares of MorphoSys for $100 million at a price of €63.35 per ordinary share, based on the average trading price of the ordinary shares over a period preceding the closing of the acquisition.

- In April 2021, we acquired a royalty interest in Oxlumo from Dicerna Pharmaceuticals, Inc. for an upfront cash payment of $180 million and up to $60 million in contingent sales-based milestone payments. Oxlumo, which has been approved by the FDA and EMA for the treatment of primary hyperoxaluria (PH) type 1, is marketed by Alnylam.

- In March 2021, we acquired a royalty interest in the cabozantinib products Cabometyx and Cometriq from GSK for an upfront payment of $342 million and up to $50 million in additional payments contingent on the achievement of regulatory approvals of cabozantinib for prostate cancer and lung cancer in the United States. and Europe.

- In January 2021, we acquired a royalty interest in seltorexant from Minerva Neurosciences, Inc. for an upfront payment of $60 million and up to $95 million in additional milestone payments, contingent on the achievement of certain clinical, regulatory and commercialization milestones. Seltorexant is currently in Phase 3 development for the treatment of major depressive disorder (MDD) with insomnia symptoms by Johnson & Johnson.

- In December 2020, we acquired royalty interests from BioCryst on (1) ORLADEYO (betrotralstat) to support the launch of the product in hereditary angioedema (HAE) and (2) its development-stage Factor D inhibitor BCX9930 in exchange for an upfront cash payment of $125 million.

- In October 2020, we acquired the residual royalty interest in Vertex's cystic fibrosis franchise owned by the Cystic Fibrosis Foundation. The agreement includes an upfront payment of $575 million and a potential milestone payment of $75 million.

- In August 2020, we entered into an expanded agreement with Biohaven for up to $450 million to fund the development of zavegepant and the commercialization of Nurtec ODT. Biohaven received an upfront payment of $150 million at closing and received an additional $100 million payment in March 2021 upon the start of the oral zavegepant phase 3 program. We will receive a royalty on Nurtec ODT and zavegepant and success-based milestone payments based on zavegepant regulatory approvals. We will also provide further support for the ongoing launch of Nurtec ODT through the purchase of committed, non-contingent Commercial Launch Preferred Equity for a total of $200 million payable between 2021 and 2024 which we started funding in the three months ended March 31, 2021. In return, Biohaven will pay a series of equal fixed payments between 2025 and 2030.

- In July 2020, we acquired a royalty on risdiplam, a development-stage product for the treatment of Types 1, 2 and 3 spinal muscular atrophy (SMA) from PTC Therapeutics, Inc. in exchange for an upfront payment of $650 million. Evrysdi (risdiplam) was subsequently approved by the FDA in August 2020, representing the first, oral treatment approved for infants, children and adults with all SMA types.

- In June 2020, we acquired a royalty on (1) Prevymis, an approved product to prevent cytomegalovirus (CMV) infection in stem cell transplants, from AiCuris Anti-infective Cures GmbH in exchange for an upfront payment of $220 million, and (2) IDHIFA, an approved product for the treatment of adult patients with relapsed or refractory acute myeloid leukemia (AML) with an isocitrate dehydrogenase-2 (IDH2) mutation, from Agios Pharmaceuticals, Inc. in exchange for an upfront payment of $255 million.

- In March 2020, we acquired a royalty on Entyvio, an approved product for the treatment of ulcerative colitis and Crohn's disease, from The General Hospital Corporation in exchange for an upfront payment of $86.6 million.

Additionally, in April 2021, we entered into an agreement with MSCI Inc. ("MSCI"), a leading provider of critical decision support tools and services where we will assist MSCI to design a classification framework and index methodologies which will expand MSCI's thematic index suite with the launch of new indexes. In return, we will receive a portion of MSCI's revenues from those indexes. We do not expect the financial statement impact associated with this transaction to be material for the year ended December 31, 2021.

Liquidity and Capital Resources

Overview

Our primary source of liquidity is cash provided by operations. For both the nine months ended September 30, 2021 and 2020, we generated $1.5 billion in *Net cash provided by operating activities*. We believe that our existing capital resources, cash provided by operating activities and our Revolving Credit Facility (defined below) will continue to allow us to meet our operating and working capital requirements, to fund planned strategic acquisitions and R&D funding arrangements, and to meet our debt service obligations for the foreseeable future. We have historically operated at a low level of fixed operating costs. Our primary cash operating expenses, other than R&D funding commitments, include interest expense, our Operating and Personnel Payments, and legal and professional fees.

We have access to substantial sources of funds in the capital markets and we may, from time to time, seek additional capital through a combination of additional debt or equity financings. In June 2020, we completed our IPO and received net proceeds of approximately $1.9 billion from the IPO after deducting underwriting discounts and commissions of approximately $86.3 million. In February 2020, in connection with the Exchange Offer Transactions, we repaid outstanding debt held by RPIFT in full and issued new long-term debt at RPI Intermediate FT. In September 2020, we repaid in full our senior secured credit facilities entered into in February 2020 using the proceeds of the 2020 Notes in addition to cash on hand. In July 2021, we issued an additional $1.3 billion of senior unsecured notes. Additionally, we have a Revolving Credit Facility (defined below) which provides for borrowing capacity of up to $1.5 billion that remains undrawn and available to us as of September 30, 2021. As of September 30, 2021 and December 31, 2020, we had total long-term debt outstanding of $7.1 billion and $5.8 billion, respectively.

We have historically funded our acquisition program through free cash flow, equity contributions and debt. Our low operating costs coupled with a lack of capital expenditures and low taxes have contributed to our strong financial profile, resulting in high operating leverage and high conversion of our Adjusted Cash Receipts to Adjusted Cash Flow. We expect to continue funding our current and planned operating costs (excluding acquisitions) principally through our cash flow from operations and our acquisition program through cash flow and issuances of equity and debt. In the past, we have supplemented our available cash and cash equivalents on hand with attractive debt capital to fund certain strategic acquisitions.

Our ability to satisfy our working capital needs, debt service and other obligations, and to comply with the financial covenants under our financing agreements depends on our future operating performance and cash flow, which are in turn subject to prevailing economic conditions and other factors, many of which are beyond our control.

Cash flows

The following table summarizes our cash flow activities:

(in thousands)	Nine Months Ended September 30,	
	2021	**2020**
Cash provided by (used in):		
Operating activities	$ 1,527,579	$ 1,468,956
Investing activities	$ (1,318,634)	$ (1,926,918)
Financing activities	$ 583,183	$ 1,764,565

Analysis of Cash Flow Changes

Operating activities

Cash provided by operating activities increased by $58.6 million in the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020, primarily driven by an increase in cash collections from financial royalty assets of $183.9 million. Partially offsetting the increase in royalty receipts was the upfront R&D funding payment of $90.0 million related to two development-stage products acquired from our strategic funding partnership with MorphoSys and an increase of $27.3 million in interest paid, primarily due to the shift from quarterly to semi-annual interest payments with the issuance of the 2020 Notes.

Investing activities

Cash used in investing activities decreased by $608.3 million in the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020, primarily driven by a $1.2 billion increase in the overall net cash provided by marketable securities and receipt of $116.0 million of proceeds from the sale of our Cytokinetics common stock and a portion of our Biohaven common stock. Offsetting the decreases in cash used in investing activities was a $642.7 million increase in cash used to acquire financial royalty assets.

Financing activities

Cash provided by financing activities decreased by $1.2 billion in the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020, primarily driven by $1.9 billion net proceeds received from our IPO in June 2020, for which there was no comparable activity in the nine months ended September 30, 2021. Offsetting the decreases in cash provided by financing activities was a $497.7 million net increase in proceeds related to the debt refinancings.

Sources of Capital

As of September 30, 2021, our cash and cash equivalents and marketable securities totaled $1.8 billion and $245.7 million, respectively. As of December 31, 2020, our cash and cash equivalents and marketable securities totaled $1.0 billion and $983.3 million, respectively. We intend to fund short-term and long-term financial obligations as they mature through cash and cash equivalents, sales of short-term marketable securities, future cash flows from operations or the issuance of additional debt. Our ability to generate cash flows from operations, issue debt or enter into financing arrangements on acceptable terms could be adversely affected if there is a material decline in the sales of the underlying pharmaceutical products in which we hold royalties, deterioration in our key financial ratios or credit ratings, or other material unfavorable changes in business conditions. Currently, we believe that we have sufficient financial flexibility to issue debt, enter into other financing arrangements and attract long-term capital on acceptable terms to support our growth objectives.

Borrowings

We had the following indebtedness outstanding as of September 30, 2021 and December 31, 2020:

(in thousands)	**Date of Issuance**	**Maturity**	**September 30, 2021**	**December 31, 2020**
Senior Unsecured Notes:				
$1,000,000, 0.75% (issued at 99.322% of par)	9/2020	9/2023	$ 1,000,000	$ 1,000,000
$1,000,000, 1.20% (issued at 98.875% of par)	9/2020	9/2025	1,000,000	1,000,000
$1,000,000, 1.75% (issued at 98.284% of par)	9/2020	9/2027	1,000,000	1,000,000
$1,000,000, 2.20% (issued at 97.760% of par)	9/2020	9/2030	1,000,000	1,000,000
$600,000, 2.15% (issued at 98.263% of par)	7/2021	9/2031	600,000	—
$1,000,000, 3.30% (issued at 95.556% of par)	9/2020	9/2040	1,000,000	1,000,000
$1,000,000, 3.55% (issued at 95.306% of par)	9/2020	9/2050	1,000,000	1,000,000
$700,000, 3.35% (issued at 97.565% of par)	7/2021	9/2051	700,000	—
Total senior unsecured debt			7,300,000	6,000,000
Unamortized debt discount and issuance costs			(209,331)	(183,416)
Total long-term debt			**$ 7,090,669**	**$ 5,816,584**

Senior Unsecured Notes

On September 2, 2020, we issued $6.0 billion of senior unsecured note (the “2020 Notes”) with a weighted average coupon rate of 2.125% and requiring interest payments of approximately $127.5 million on an annual basis, paid semi-annually. We used the net proceeds from the 2020 Notes offering, together with available cash on hand, to repay in full the senior secured credit facilities. On July 26, 2021, we issued $1.3 billion of senior unsecured notes (the “2021 Notes”) with a weighted average coupon rate of 2.80% and requiring interest payments of approximately $36.4 million on an annual basis, paid semi-annually. We refer to the 2020 Notes and 2021 Notes, collectively, as the “Notes.” The indenture governing the Notes contains certain covenants which we were in compliance with as of September 30, 2021.

Senior Revolving Credit Facility

On September 15, 2021, we entered into an amended and restated revolving credit agreement (the “Credit Agreement”). The Credit Agreement amends and restates the existing credit agreement that we entered on September 18, 2020 with our subsidiary RP Holdings, as borrower, which provided for a five-year unsecured revolving credit facility (the “Revolving Credit Facility”) with borrowing capacity of up to $1.5 billion for general corporate purposes. The Credit Agreement extends the maturity of the Revolving Credit Facility to September 15, 2026. Our revolving credit agreement includes certain customary financial covenants with which we were in compliance as of September 30, 2021. The Revolving Credit Facility remains undrawn and available to us as of September 30, 2021.

Senior Secured Credit Facilities

On February 11, 2020, in connection with the Exchange Offer Transactions and using funds contributed by RPI Intermediate FT and the Legacy Investors Partnerships, RPIFT repaid its outstanding debt and accrued interest, and terminated all outstanding interest rate swaps. RPI Intermediate FT, as borrower, entered into a term loan credit agreement with Bank of America, N.A., as administrative agent, the lenders party thereto from time to time and the other parties thereto. In September 2020, we repaid in full the outstanding principal amounts of term loans under senior secured credit facilities with the net proceeds from the 2020 Notes and available cash on hand.

RPIFT Senior Secured Credit Facilities

The RPIFT Senior Secured Credit Facilities were repaid in full in February 2020 and new senior secured credit facilities were issued by RPI Intermediate FT in connection with the Exchange Offer Transactions.

Guarantor Financial Information

Our obligations under the Notes are fully and unconditionally guaranteed by RP Holdings, a non-wholly owned subsidiary (the "Guarantor Subsidiary"). Our remaining subsidiaries (the "Non-Guarantor Subsidiaries") do not guarantee the Notes. Under the terms of the indenture governing the Notes, Royalty Pharma plc and the Guarantor Subsidiary each fully and unconditionally, jointly and severally, guarantee the payment of interest, principal and premium, if any, on the Notes. The par value and carrying value of the total outstanding and guaranteed Notes was $7.3 billion and $7.1 billion, respectively as of September 30, 2021.

The following financial information presents summarized combined balance sheet information as of September 30, 2021 and December 31, 2020, and summarized combined statement of comprehensive income information for the nine months ended September 30, 2021 for Royalty Pharma plc and RP Holdings. All intercompany balances and transactions between Royalty Pharma plc and RP Holdings are eliminated in the presentation of the combined financial statements. RP Holdings' most significant asset is its investment in operating subsidiaries, which has been eliminated in the table below to exclude investments in Non-Guarantor Subsidiaries. As a result, our ability to make required payments on the Notes depends on the performance of our operating subsidiaries and their ability to distribute funds to us. There are no material restrictions on distributions from the operating subsidiaries. Amounts presented below do not represent our total consolidated amounts as of September 30, 2021 and December 31, 2020 or for the nine months ended September 30, 2021.

Summarized Combined Balance Sheet *(in thousands)*	**As of September 30, 2021**	**As of December 31, 2020**
Current assets	$ 44,217	$ 51,625
Current interest receivable on intercompany notes due from Non-Guarantor Subsidiaries	4,988	15,709
Non-current assets	4,419	4,558
Non-current intercompany notes receivable due from Non-Guarantor Subsidiaries	2,078,647	2,101,656
Current liabilities	20,931	44,161
Current interest payables on intercompany notes due to Non-Guarantor Subsidiaries	4,988	15,709
Current intercompany payables due to Non-Guarantor Subsidiaries	—	1,182
Non-current liabilities	7,090,089	5,816,133
Non-current intercompany notes payable due to non-Guarantor Subsidiaries	2,078,647	2,101,656

Summarized Combined Statement of Comprehensive Income *(in thousands)*	**For the nine months ended September 30, 2021**
Interest income on intercompany notes receivable from Non-Guarantor Subsidiaries	$ 37,105
Operating expenses	131,941
Interest expense on intercompany notes payable with Non-Guarantor Subsidiaries	37,105
Other expenses	11,320
Net loss	143,261

Uses of Capital

Acquisitions of royalties

We acquire product royalties in a variety of ways that can be tailored to the needs of our partners. We classify our product royalty acquisitions by the following structures:

- **Third-party Royalties** – A royalty is the contractual right to a percentage of top-line sales from a licensee's use of a product, technology or intellectual property. The majority of our current portfolio consists of third-party royalties.

- **Synthetic / Hybrid Royalties** – A synthetic royalty is the contractual right to a percentage of top-line sales created by the owner of a therapy in exchange for funding. In many of our synthetic royalties, we also make investments in the public equity of the company, where the main value driver of the company is the product for which we concurrently acquired a royalty.

- **R&D Funding** – We fund R&D, typically for large biopharmaceutical companies, in exchange for future royalties and/or milestones if the product or indication we are funding is approved.

- **M&A -** We acquire royalties in connection with M&A transactions, often from the buyers of biopharmaceutical companies when they dispose of the non-strategic assets of the target company following the closing of the acquisition. We also seek to partner with companies to acquire other biopharmaceutical companies that own significant royalties. We may also seek to acquire biopharmaceutical companies that have significant royalties or where we can create royalties in subsequent transactions.

Distributions to Shareholders/Unitholders

We paid dividends to holders of our Class A ordinary shares of $211.6 million in the nine months ended September 30, 2021. We do not have a legal obligation to pay a quarterly dividend or dividends at any specified rate or at all.

We made distributions of $285.4 million to shareholders/unitholders prior to the IPO in 2020. We paid dividends to holders of our Class A ordinary shares of $54.9 million in the three months ended September 30, 2020.

Commercial Launch Preferred Equity and Other Funding Arrangements

In June 2021, we announced a long-term strategic funding partnership with MorphoSys to support MorphoSys' acquisition of Constellation, which closed on July 15, 2021. As part of the funding agreement, we agreed to provide MorphoSys up to $350 million of Development Funding Bonds, which MorphoSys may draw over a one-year period from the close of its acquisition of Constellation. MorphoSys is required to draw a minimum of $150 million of Development Funding Bonds. In return, we expect to receive a return of 2.2 times the amount funded on the Development Funding Bonds payable on a quarterly basis over nine years, with the first payment beginning two years after the funding.

On August 7, 2020, we entered into the Series B Biohaven Preferred Share Purchase Agreement ("Series B Biohaven Preferred Share Agreement") with Biohaven to purchase up to 3,992 shares of Series B Biohaven Preferred Shares at a price of $50,100 per preferred share (the "Commercial Launch Preferred Equity"), for a total of $200.0 million payable on a quarterly basis between March 31, 2021 and December 31, 2024. In the three months ended March 31, 2021, we began purchasing the Series B Biohaven Preferred Shares.

We have other funding arrangements where we are contractually obligated to fund R&D activities performed by our development partners and to provide additional capital related to our equity method investment in the Avillion entities. As our committed capital requirements are based on phases of development, the completion of which is highly uncertain, only the capital required to fund the current stage of development under such funding arrangements is considered committed capital requirements which approximate $48.9 million as of September 30, 2021.

Debt service

As of September 30, 2021, the future principal and interest payments under our Notes over the next five years and thereafter are as follows:

(in thousands)

Year	Principal Payments	Interest Payme
Remainder of 2021	$ —	$
2022	—	1
2023	1,000,000	1
2024	—	1
2025	1,000,000	1
Thereafter	5,300,000	2,2
Total (1)	$ 7,300,000	$ 2,8

(1) Excludes unamortized debt discount and issuance costs of $209.3 million as of September 30, 2021, which are amortized through interest expense over the remaining life of the underlying debt obligations.

Commitments, Contingencies and Guarantees

We are involved in certain legal proceedings arising in the ordinary course of business and, as required, accrue an estimate of the probable costs for resolution of those claims for which the occurrence of loss is probable and the amount can be reasonably estimated. In general, estimates are developed in consultation with counsel and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. It is possible, however, that future results of operations for any particular period could be materially affected by changes in our assumptions or the effectiveness of our strategies related to these proceedings.

Amounts related to contingent milestone payments are not considered contractual obligations as they are contingent on the successful achievement of certain development, regulatory approval or commercial milestones. In the nine months ended September 30, 2021, we made a $100.0 million payment to Biohaven related to a development milestone that was achieved upon the start of the oral zavegepant Phase 3 program.

We began purchasing the Series B Biohaven Preferred Shares in the three months ended March 31, 2021, and have a remaining commitment of $147.2 million under our Commercial Launch Preferred Equity as of September 30, 2021.

There have been no other significant changes to our contractual obligations disclosed in the audited consolidated financial statements for the year ended December 31, 2020 included in our Annual Report on Form 10-K, except for the scheduled principal and interest payments in future periods following our issuance of the 2021 Notes and our committed, non-contingent Development Funding Bonds as part of our funding partnership with MorphoSys as summarized below:

(in thousands)	Total	Remainder of 2021	1-3 years	3-5 years	Thereafter
Long-term debt:					
Principal payments on the Notes	$ 7,300,000	$ —	$ 1,000,000	$ 1,000,000	$ 5,300,000
Interest payments on the Notes	2,858,534	—	331,234	312,700	2,214,600
Total (1)	$ 10,158,534	$ —	$ 1,331,234	$ 1,312,700	$ 7,514,600

(1) Excludes $350 million of Development Funding Bonds that we agreed to provide to MorphoSys as part of our funding partnership and which MorphoSys may draw over a one-year period from the close of its acquisition of Constellation on July 15, 2021. MorphoSys is required to draw a minimum of $150 million on the Development Funding Bonds. As of September 30, 2021, MorphoSys has not drawn any amount under the Development Funding Bonds.

Other Off-Balance Sheet Arrangements

We do not have relationships with structured finance or special purpose entities that were established to facilitate off-balance sheet arrangements. Therefore, we are not exposed to any financing, liquidity, market or credit risk that may arise if we had engaged in such relationships. We consolidate variable interest entities when we are the primary beneficiary.

Critical Accounting Policies and Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles in the United States requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses. Certain of these policies are considered critical as they have the most significant impact on our financial condition and results of operations and require the most difficult, subjective, or complex judgments, often because of the need to make estimates about the effect of matters that are inherently uncertain. On an ongoing basis, we evaluate our estimates that are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The result of these evaluations forms the basis for making judgments about the carrying values of assets and liabilities and the reported amount of expenses that are not readily apparent from other sources. Because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

Our most critical accounting policies relate to our royalties. Similarly, the most significant judgments and estimates applied by management are associated with the measurement of our financial royalty assets. There have been no material changes to our critical accounting policies and estimates as described in our Annual Report on Form 10-K.

Recent Accounting Pronouncements

See Note 2–Summary of Significant Accounting Policies to our consolidated financial statements for additional information on recently issued accounting standards.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

We are subject to certain risks which may affect our results of operations, cash flows and fair values of assets and liabilities, including volatility in foreign currency exchange rates and interest rates. Our primary exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates, particularly because the nature of the marketable securities we hold. In order to manage our exposures, we follow established risk management policies and procedures, including the use of derivative financial instruments, such as swaps, rate locks and forwards. We do not enter into derivative instruments for trading or speculative purposes. The counterparties to these contracts are all major financial institutions.

Foreign Currency Exchange Risk

Our results of operations are subject to foreign currency exchange risk through transactional exposure resulting from movements in exchange rates between the time we recognize royalty income or royalty revenue and the time at which the transaction settles, or we receive the royalty payment. The current portion of *Financial royalty assets, net* and *Accrued royalty receivable* account for the most common types of transactional exposure. Because we are entitled to royalties on worldwide sales for various products, there is an underlying exposure to foreign currency as the marketer converts payment amounts from local currencies to U.S. dollars using a quarterly average exchange rate. Therefore, cash received may differ from the estimated receivable based on fluctuations in currency. In addition, certain products pay royalties in currencies other than U.S. dollars, which also creates foreign currency risk primarily with respect to the Euro, Canadian Dollar, Swiss Franc and Japanese Yen, as our functional and reporting currency is the U.S. dollar. To manage foreign currency exchange risk, we may periodically utilize non-deliverable forward exchange contracts. We do not currently have any foreign exchange contracts in place.

Interest Rate Risk

We are subject to interest rate fluctuation exposure through our investments in money market accounts and marketable securities, the majority of which bear a variable interest rate. As of September 30, 2021, we held cash and cash equivalents of $1.8 billion, of which $734.5 million was cash, $14.8 million was invested in commercial paper and certificates of deposit and $1.1 billion was invested in interest-bearing money market funds. We also held $245.7 million in marketable securities as of September 30, 2021 invested in commercial paper and certificates of deposit.

As of December 31, 2020, we had cash and cash equivalents of $1.0 billion, of which $832.7 million was cash, $151.7 million was invested in commercial paper and certificates of deposit and $24.3 million was invested in interest-bearing money market funds. In addition, as of December 31, 2020 we had $983.3 million invested in corporate debt securities, commercial paper and certificates of deposit.

The objectives of our investment policy are the preservation of capital and fulfillment of liquidity needs. In order to maximize income without assuming significant market risk, we maintain our excess cash and cash equivalents in money market funds and marketable securities, largely composed of investment grade, short to intermediate term fixed income and debt securities. Because of the short term maturities of our cash equivalents and the short term nature of our marketable securities, we do not believe that a decrease in interest rates would have any material negative impact on the fair value of our cash equivalents or marketable securities.

Our debt portfolio is managed on a consolidated basis and management makes financing decisions to achieve the lowest cost of debt capital and to maximize portfolio objectives. As of September 30, 2021, 100% of our outstanding debt has fixed interest rates. We have a $1.5 billion Revolving Credit Facility with a variable interest rate that remained undrawn as of September 30, 2021. We are subject to interest rate fluctuation exposure related to the Revolving Credit Facility, if drawn.

We manage our exposure to interest rate volatility on future debt issuances by entering into treasury rate lock contracts to lock in the rate on the interest payments related to anticipated debt issuances. In June 2021, we executed treasury rate lock contracts with notional amounts totaling $600.0 million to fix the interest rate on a portion of the principal related to our 2021 Notes issued in July 2021. The treasury lock contracts were terminated in July 2021.

Credit and Counterparty Risk

We are exposed to credit risk related to the counterparties with which we do business. We are subject to credit risk from our royalty assets, our receivables and our derivative financial instruments. The majority of our royalty assets and receivables arise from contractual royalty agreements that pay royalties on the sales of underlying pharmaceutical products in the United States, Europe and the rest of the world, with concentrations of credit risk limited due to the broad range of marketers responsible for paying royalties to us and the variety of geographies from which our royalties on product sales are derived. The products in which we hold royalties are marketed by leading biopharmaceutical industry participants, including, among others, AbbVie, Amgen, Bristol Myers Squibb, Gilead, Johnson & Johnson, Lilly, Merck, Pfizer, Novartis, Biogen, Roche/Genentech and Vertex. As of September 30, 2021 and December 31, 2020, Vertex was the marketer and payor making up the largest balance of our current portion of *Financial royalty assets, net*, accounting for 32% and 27%, respectively, as the marketer and payor of our royalties on the cystic fibrosis franchise. Refer to "—Understanding Our Results of Operations" within this MD&A for a discussion of the marketers or royalty payors accounting for 10% or more of our total income and other revenues for the periods ended September 30, 2021 and 2020.

We monitor the financial performance and creditworthiness of the counterparties to our royalty agreements and to our derivative financial instruments so that we can properly assess and respond to changes in their credit profile. To date, we have not experienced any significant losses with respect to the collection of income or revenue on our royalty assets or on the settlement of our derivative financial instruments. If a counterparty becomes bankrupt, or otherwise fails to perform its obligations under a derivative financial instruments due to financial difficulties, we may experience significant delays in obtaining any recovery under the derivative financial instruments in a bankruptcy or other reorganization proceeding.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) prior to the filing of this Quarterly Report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were, in design and operation, effective to the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

Our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated any changes in our internal controls over financial reporting that occurred during the three months ended September 30, 2021, and has concluded that there was no change during such quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitation on the Effectiveness Over Financial Reporting

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met and, as set forth above, our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this report, that our disclosure controls and procedures were effective to provide reasonable assurance that the objectives of our disclosure control system were met.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

From time to time, we or the Manager may be a party to various claims, charges and litigation matters arising in the ordinary course of business. Management and legal counsel regularly review the probable outcome of such proceedings. While we cannot feasibly predict the outcome of these matters with certainty, we believe, based on examination of these matters, experience to date and discussions with counsel, that the ultimate liability, individually or in the aggregate, will not adversely affect our business, financial condition or results of operations.

Item 1A. RISK FACTORS

There have been no material changes with respect to the risk factors disclosed in the Annual Report on Form 10-K.

Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may adversely affect our business, financial condition and results of operations.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Recent Sales of Unregistered Securities

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

Item 6. EXHIBITS

The following exhibits are filed as a part of this Quarterly Report on Form 10-Q:

Exhibit No.	Description of Exhibit
31.1*	Certification of the Registrant's Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934
31.2*	Certification of the Registrant's Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934
32*	Certification of the Registrant' Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase

* Filed or furnished herewith

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ROYALTY PHARMA PLC
(Registrant)

Date: November 10, 2021

/s/ Pablo Legorreta
Pablo Legorreta
Chief Executive Officer

Date: November 10, 2021

/s/ Terrance Coyne
Terrance Coyne
Chief Financial Officer

Exhibit 31.1

CERTIFICATION BY CHIEF EXECUTIVE OFFICER PURSUANT TO SECURITIES EXCHANGE ACT RULE 13A-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Pablo Legorreta, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Royalty Pharma plc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: November 10, 2021

/s/ Pablo Legorreta

Pablo Legorreta
Chief Executive Officer

Exhibit 31.2

CERTIFICATION BY CHIEF FINANCIAL OFFICER PURSUANT TO SECURITIES EXCHANGE ACT RULE 13A-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Terrance Coyne, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Royalty Pharma plc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: November 10, 2021

/s/ Terrance Coyne

Terrance Coyne

Chief Financial Officer

Exhibit 32

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

The certification set forth below is being submitted in connection with Royalty Pharma plc's Quarterly Report on Form 10-Q for the quarter ended September 30, 2021 (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Pablo Legorreta, the Chief Executive Officer and Terrance Coyne, the Chief Financial Officer of Royalty Pharma plc, each certifies that, to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Royalty Pharma plc.

Date: November 10, 2021

/s/ Pablo Legorreta

Name: Pablo Legorreta
Chief Executive Officer

/s/ Terrance Coyne

Name: Terrance Coyne
Chief Financial Officer